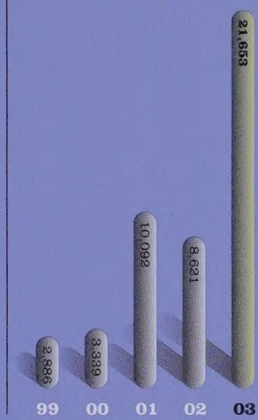
GENTRY RESOURCES LTD. 2003 Annual Report

Diligence pays off.

PRODUCTION
(boe/d)

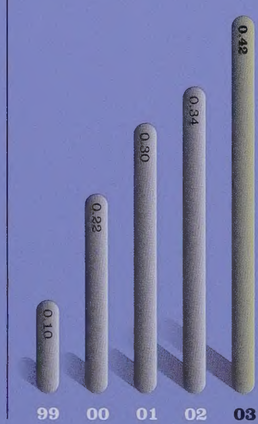
CAPITAL EXPENDITURES
($000s)



ANNUAL REVENUE
($000s)

CASH FLOW
($000s)

CASH FLOW PER SHARE
($)

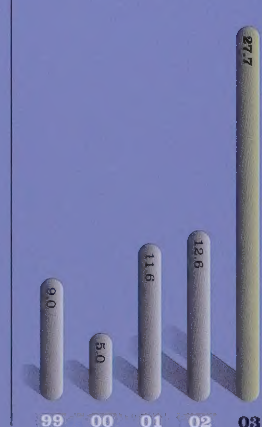


RESERVES
(mboe)

NET INCOME
($000s)

NET INCOME PER SHARE
($)

NET WELLS DRILLED



Years Ended December 31

Financial Highlights

	2003	2002	% Change
Gross Revenue	**$ 24,679,805**	$ 19,355,614	28%
Cash Flow from Operations	**10,386,189**	7,417,414	40%
Per share—Basic	**0.42**	0.34	24%
—Diluted	**0.40**	0.32	25%
Net Income	**3,040,509**	2,435,546	25%
Per share—Basic	**0.12**	0.11	9%
—Diluted	**0.12**	0.10	20%
Net Capital Expenditures	**21,653,477**	8,620,870	151%
Total Assets	**53,472,645**	36,422,674	47%
Net Debt	**13,443,236**	7,224,659	86%
Shareholders' Equity	**24,458,560**	16,612,578	47%
Common Shares Outstanding			
Weighted Average—Basic	**24,564,151**	22,075,233	11%
—Diluted	**25,944,850**	23,317,287	11%
Year End —Outstanding	**27,352,508**	23,783,263	15%
—Fully Diluted	**29,962,508**	26,613,263	13%

Production Highlights

Oil and Liquids (bbls/d)	**897**	991	(9)%
Gas (mcf/d)	**5,330**	4,741	12%
Barrel of Oil Equivalent (boe/d)	**1,785**	1,781	—%

Average Prices

Oil and Liquids ($/bbl)	**36.22**	35.55	8%
Gas ($/mcf)	**6.59**	4.17	58%
Barrel of Oil Equivalent ($/boe)	**37.87**	29.77	27%

Reserves

Oil and Liquids (mbbls)	**3,147**	2,842	11%
Gas (mmcf)	**19,569**	13,166	49%
Barrel of Oil Equivalent (mboe)	**6,409**	5,036	27%

Notes: Natural gas is converted to boe on the basis of 6 mcf = 1 boe.
Prior period reserve figures have been restated to exclude all royalty ownership boe.

All reserves (and calculations thereon) are based on a proved plus probable basis for 2003 and a proved plus 50% probable (established) basis prior thereto.

Certain comparative information has been restated in compliance with the Company's new accounting policy on asset retirement obligations. Refer to Note 3 of the Consolidated Financial Statements for further information.

The idea that diligence pays off can be clearly seen in Gentry's track record since its dramatic shift to full-cycle exploration just over three years ago. Cash flow has grown five-fold since 1999, and net income has gone from $45 thousand to $3.04 million. From a standing start, Gentry's exploration team has amassed a strong land position in four core exploration areas and internally-generated exploration plays that have resulted in strong drilling success. Production grew steadily from the second quarter and diligence has paid off. In 2003, Gentry recorded the most successful year in its history—both financially and operationally.

FINANCIAL RESULTS

- Gross revenues increased 28% over 2002 to $24.68 million.
- Cash flow reached a new high of $10.39 million, up 40% from last year. On a per share basis, cash flow was $0.42 compared with $0.34 in 2002.
- Net income was up 25% from last year to $3.04 million, or $0.12 per share.
- Capital spending in 2003 more than doubled from 2002 to $21.65 million, the largest component of which was to drill 55 wells (27.7 net), up from 35 wells (12.6 net) in 2002.
- A bought deal equity financing was completed in October for 3 million common shares at $1.75 per share for gross proceeds of $5.25 million.
- At year-end 2003, our net debt was $13.44 million, which is 0.9 times estimated forward 2004 cash flow.
- We announced a normal course issuer bid to purchase up to 10% of the issued and outstanding common shares of the Company with an expiry date of August 26, 2004.

OPERATIONAL HIGHLIGHTS

In 2003 we continued to realize the benefits of full-cycle exploration with both production and reserve growth derived almost entirely from exploration and development drilling.

- Production increased steadily through the year from 1,595 boe/d in the second quarter, to 1,810 boe/d in the third quarter and to a fourth quarter rate of 2,103 boe/d. The average for the year was 1,785 boe/d.
- We maintained a balanced commodity mix at 50% oil and liquids and 50% natural gas.
- Proved plus probable reserves increased 27% to 6,409 mboe from established reserves of 5,036 at year-end 2002.
- Proved and probable reserve additions replaced 429% of our annual gas production and 193% of annual oil and liquids production. On a boe basis, we replaced 311% of our 2003 production.
- The net present value of proved plus probable reserves, discounted at 10%, was $59 million, up 27% from the 2002 year-end evaluation.
- Our reserve life index was 7.8 years overall on a proved plus probable basis. Oil and liquids reserves are estimated at 8.9 years and natural gas reserves at 7.0 years.
- Gentry participated in the drilling of 55 wells (27.7 net) in 2003. With the majority being exploration wells, we achieved a success rate of 71% (73% net).
- We aggressively expanded our core exploration areas with a 48% increase in undeveloped land holdings in Western Canada to 51,266 net acres.

Hugh Ross, *President & C.E.O.*, and **Ketan Panchmatia,** *Vice-President of Finance & C.F.O.*, regularly meet with analysts and brokers to increase Gentry's exposure and liquidity of the Company's shares.

Gentry's shift to full-cycle exploration has led to a substantial rise in its share price.

INCREASE IN SHARE PRICE IN 2003

41%

Gord McKay, *Vice-President of Exploration & C.O.O.,* and **Rob Poole,** *Production Manager,* work diligently to increase drilling success and control costs to maximize profit.

Gentry's shift to full-cycle exploration has required discipline and diligence in its operations.

CASH FLOW
INCREASED IN 2003

40%

OUR VALUE METRICS

While Gentry is recording steady growth, we are acutely aware of our cost structure and the value we are creating for shareholders. A major focus for 2004 is to improve our per unit of production costs on a wide range of parameters ranging from finding and development costs, to netbacks through operating costs, cash flow and earnings. As we increase our production, some of these metrics will improve due to economies of scale. However, our approach is more pro-active; we intend to operate more of our exploration plays and production, which will allow greater control over costs and project development.

Our strategy is the same with the value we add for our shareholders on a per share basis. Over the past year, our per share growth has been 11% for proved plus probable reserves, 24% for cash flow and 9% for earnings. Our goal is to deliver strong growth metrics on a per unit basis.

STRONG PRODUCTION BASE

Gentry is unique among junior oil and gas companies for its base of reliable and consistent production. A portion of our reserves are comprised of non-operated interests in some of Western Canada's highest quality properties which exhibit stable production, low declines and have a combined reserve life in excess of 15 years. These properties are operated by companies that consider the assets as core properties and have a high level of technical expertise in each area. The cash flow that Gentry receives from these assets provides a sound financial platform to pursue high-impact opportunities in key exploration areas.

EXPLORATION STRATEGY

The creation of both an exploration strategy and a cohesive exploration team has demanded both diligence and discipline. In 2003, we once again augmented our talent pool with an experienced geophysicist and we plan to soon add an additional engineer to the team.

In the past year, there has been a sense that both our exploration strategy and our exploration team have truly begun to gel. More than ever, we have the talent and resources to continue to internally generate exploration ideas and decisively move forward to operate the plays. The fundamentals of our exploration strategy include:

- Identification of areas with high-impact growth potential which will support full-cycle exploration;
- Continue to expand our core areas, where our technical expertise can best be deployed;
- Operate our exploration plays with a minimum 50% working interest;
- Explore in areas where we can operate and control our own transportation and processing facilities;
- Target prospects to maintain a balanced production profile between natural gas and oil.

CORE EXPLORATION AREAS

Gentry's exploration efforts are concentrated in four core areas, all of which have been developed by our technical team. We have methodically targeted high-impact areas, invested in land and seismic and increased our technical knowledge. We are aggressively expanding our core areas by acquiring nearby acreage where we believe there are similar opportunities.

Princess was identified as our first core exploration area, and remains a major focus of our drilling program. We now control 39 sections of land, have acquired extensive 3D seismic, and are continuing to tap the area's multi-zone potential. To date, we have drilled 20 wells at Princess and achieved a 65% success rate.

Gentry's first exploration well in the area was a major Nisku discovery in late 2001 that tested with an AOF potential exceeding 12 mmcf/d. Following the resolution of regulatory delays, the well came onstream in September 2003 and has been producing at approximately 2.2 mmcf/d net. We will continue to target the high-impact Nisku formation and at least two new wells are planned for 2004. To increase our dominance of the play, we acquired additional interests and now hold six sections at 50%–100% encompassing our original discovery.

A second focus at Princess has been the Pekisko formation. We have achieved a 75% success rate in the drilling of 12 wells and discovered three new Pekisko oil pools. Oil production from Princess is currently 800 bbls/d (225 bbls/d net), and we are continuing to delineate the play but facility capacity has development constraints. Gentry plans to spend $1.7 million this year to construct additional fluid handling capacity to double Pekisko oil production from existing wells and provide fluid handling capacity for our 2004 and 2005 drilling programs.

A third exploration play has been developed in the Mannville horizon, which has yielded both oil and sweet gas production in the area.

Tide Lake is located adjacent to Princess and has similar multi-zone potential, making it a prime candidate for transferring our technical knowledge. One advantage over Princess is that much of the area is Crown land, which has allowed us to dramatically expand our presence in the area. We now control 36 sections at an average working interest of 60%. To date, we have shot three separate 3D seismic surveys and are continuing to develop our exploration program.

Sedalia continues to be a highly successful exploration play. We created the core area in 2002 and have since acquired 60 sections of land and recorded an 84% success rate from seven wells. Current net production is 3.1 mmcf/d. Sedalia plays an important role in our strategy in that the area features shallow, relatively low cost drilling, and wells can be onstream and generating cash flow in about 45 days. We are planning to continue aggressive drilling throughout 2004.

Whitecourt was established as a core area in late 2002 as a strategic move to give Gentry access to multi-zone potential and larger per well production and reserves. We have assembled a strong land position of 48 sections with the major areas of activity at Goodwin, Windfall, Blueridge and Paddle River and drilling targets are being identified using 2D and 3D seismic. To date, we have participated in 12 wells (4.1 net), of which nine wells (3.1 net) were successful. A key goal in 2004 will be to increase our net drilling success at Whitecourt.

LONGER-TERM POTENTIAL

East Coast Canada Gentry has a unique land position in Eastern Canada. A number of years ago, the Company acquired acreage, at minimal cost, in Canada's offshore East Coast in the Gulf of St. Lawrence. It is a wildcat play and jurisdictional issues have yet to be resolved, but it provides Gentry with a position in an area that is continuing to evolve and mature. Western

Canada will remain the Company's main focus, but offshore Eastern Canada provides a footing in a play with longer-term potential.

- **International Upside** Gentry holds significant upside potential in international exploration through a 19% equity interest in Stratic Energy Corporation, a company that is developing high-impact plays in the international arena. In just over a year, Stratic has significantly increased its growth potential.

In 2003, Stratic was awarded 100% interests in three offshore blocks in the UK North Sea, and subsequently a 5.58% interest in a fourth block containing an abandoned field with the potential for redevelopment. In addition, Stratic announced it had acquired exploration rights at a 36% working interest in two large concessions onshore Morocco. These new developments are in addition to Stratic's interests in blocks offshore Cote d'Ivoire and several other areas of interest.

All of Stratic's efforts are focused on exploration areas with sizable reserve targets and wells with high production rates. Gentry views Stratic to be a long-term equity investment with the potential for significant upside.

COMMODITY PRICE OUTLOOK

During 2003, both crude oil and natural gas continued on an upward trend in the commodity price cycle. As we enter 2004, crude oil prices are particularly strong with West Texas Intermediate (WTI) reaching a 20-year high with the March average price nearing $37 per barrel. The pricing strength reflects the world's geopolitical landscape, the internal politics of OPEC and the recovering global economy. While tensions in the Middle East continue to create uncertainties around supply, demand and inventories, it appears that more basic market fundamentals are supporting oil prices. Indications are that the U.S. and the world economy are both recovering and expanding, which is increasing oil demand. Yet global inventories of crude oil have yet to recover from multi-year lows experienced in early 2003. In addition, the weak U.S. dollar has been a strong motivator, particularly for buyers of crude oil. While OPEC nations have continued to produce above the cartel's quotas, in early 2004 we have seen crude oil prices reach exceptional highs, and it is expected that WTI will remain above U.S.$30 per barrel for at least the next year.

Natural gas pricing on North American markets improved substantially in 2003, and the outlook remains strong for 2004. Again, the economic recovery in the U.S. and increased demand has helped drive pricing, however, the growth is primarily supported by continued market concerns about adequate supply. As the winter ended in 2003, storage volumes in North America had been drawn down to extremely low levels due to the cold winter. In the summer injection season, pricing was abnormally high, fuelled by concerns that storage could not adequately be refilled to meet demand in the winter months of 2003/04. We expect to see similar market fundamentals and supply concerns support pricing through much of 2004.

CORPORATE GOVERNANCE

Corporate governance issues continue to make news headlines and are of fundamental importance to investors. On behalf of the Board of Directors, I wish to re-emphasize that corporate governance commands our full attention. Gentry is committed to high standards of disclosure and reporting, and adherence to principles of corporate governance in all of our financial dealings and other aspects of our operations.

In the past year, securities regulators and governing accounting organizations have introduced reporting changes for the oil and gas sector. We have complied fully, and will continue to address changes and monitor our internal systems of control to ensure high standards of compliance.

One of the recommendations brought forward was for committees of the Board to be comprised solely of independent directors. We responded quickly and, being the only member of management serving on committees, I stepped down from all committees. That is only one example of the importance we place on corporate governance. A full discussion of our corporate governance initiatives is included on page 42 and 43 of this report.

LOOKING AHEAD

Looking ahead to the next year, our first objective is to continue to improve our per unit ratios ranging from finding and development costs, through operating costs per boe to earnings and cash flow per share. We consider these to be important metrics in terms of maximizing shareholder value.

More specifically, we have set short-term goals to continue the momentum in our exploration program. These include:

- Continuing to increase our undeveloped land inventory in or near our existing core areas;
- Acquiring higher interests in our high-impact growth areas;
- Increasing the number of drillable prospects in all core areas;
- Evaluating the potential for an acquisition or farm-in to a new core exploration area with medium depth, medium risk, multi-zone prospects.

Gentry's capital expenditure program for 2004 is currently $15 million, to be funded by internally-generated cash flow. We plan to drill 50 wells (34 net) in our four core areas, with a balance between wells with higher-impact potential and wells with shorter lead times to having production onstream, such as our Sedalia program. Our market guidance for 2004 is to exit the year in the range of 2,900—3,100 boe/d.

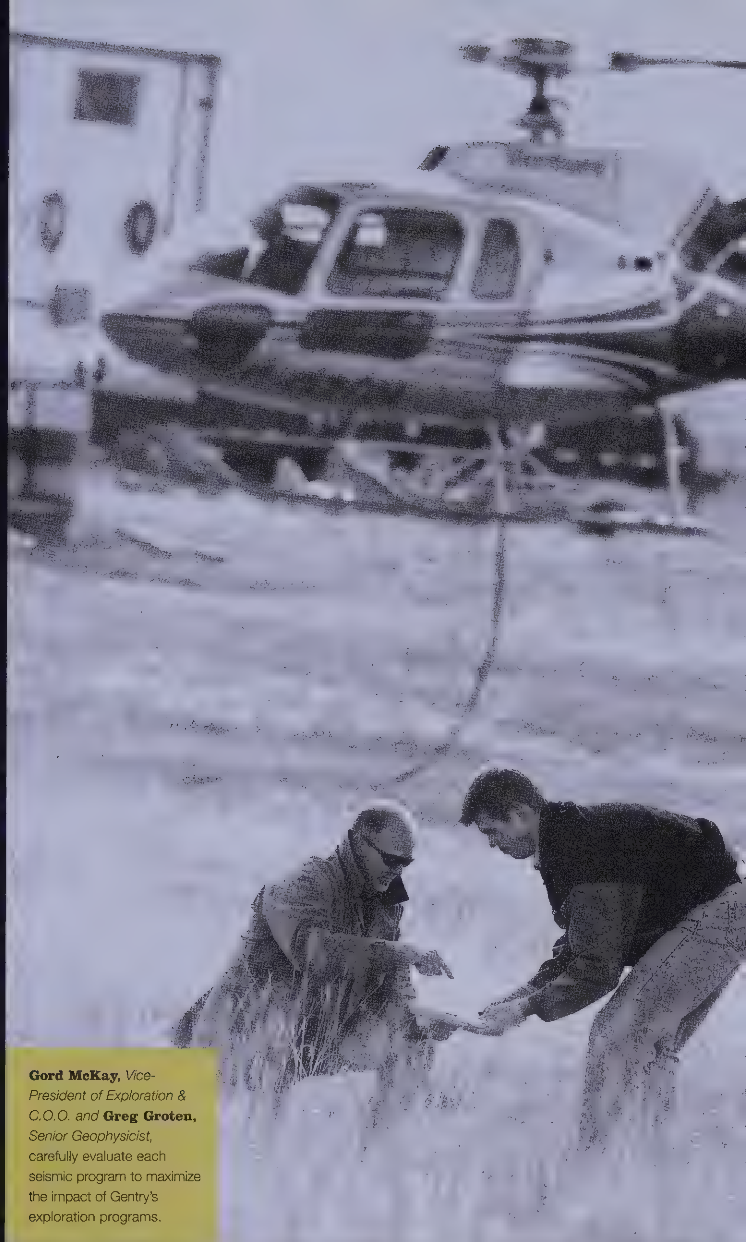
ACKNOWLEDGEMENTS

Over the past three years, we have established Gentry as a successful full-cycle exploration company. It has required hard work and diligence on the part of a dedicated and talented team. I would like to personally acknowledge their contributions to Gentry's success. I also wish to acknowledge the Board of Directors for their continued counsel and support.

Finally, I would like to thank our shareholders for their support. We have evolved into an aggressive exploration company with focus and discipline in both the management of our balance sheet and the execution of our exploration strategy. We are committed to maintaining that momentum. While we are driven to grow the Company, we are fundamentally aware of the importance of rewarding our shareholders with ever increasing value.

Respectfully submitted,

Hugh G. Ross
President & Chief Executive Officer
April 19, 2004



Gord McKay, *Vice-President of Exploration & C.O.O.* and **Greg Groten,** *Senior Geophysicist,* carefully evaluate each seismic program to maximize the impact of Gentry's exploration programs.

Gentry expects to drill a record number of net wells in 2004 as it continues to pursue high-impact growth through the drill bit.

PROJECTED 2004 CAPITAL EXPENDITURE

$15 million

Paul McEwan, *Geologist,* has evaluated the Princess area for several years and has discovered several significant new oil & gas pools for Gentry.

Drilling success at Princess has led to an exploration model encompassing multiple horizons which is serving as a template for exploration at adjacent Tide Lake.

2.2 mmcf/d

AGGRESSIVE EXPLORATION

Just over three years ago, Gentry made the dramatic and strategic shift to full-cycle exploration. In that short time, the Company has created four core exploration areas and established an exploration team with the technical skill and knowledge to internally generate plays and operate its drilling programs.

Strategically, Gentry's exploration areas provide a balance of risk and reward. Three of its areas—Princess, adjacent Tide Lake and Whitecourt—are characterized by low to medium risk, multi-zone targets with the potential to yield significant reserves and production. The fourth core area, Sedalia, is a lower risk, shallow gas play with low drilling costs, where wells can be drilled and onstream generating cash flow in about 45 days.

To continue to drive the momentum in its exploration program, a major focus in 2003 was to amass large land spreads in its core areas, and increase its ownership in those plays. Undeveloped land holdings in Western Canada increased 48% in 2003, and Gentry's average working interest increased to 46% from 39% in 2002.

Western Canada Properties

Core Operated Properties

1. *Princess*
2. *Tide Lake*
3. *Whitecourt*
4. *Sedalia*

Other Properties

5. *Red Willow*
6. *West Provost*
7. *Baldwinton*
8. *Steelman Units*
9. *Dollard*
10. *Virden Rosalea*

The Company will remain focused on growth through aggressive exploration in areas where it has developed strong technical expertise. The fundamentals of Gentry's exploration strategy include:

- Identification of areas with high-impact growth potential which will support full-cycle exploration;
- Continue to expand core areas where the exploration team's technical expertise can best be deployed;
- Concentrate on low to medium risk plays in shallower horizons;
- Further mitigate risk by focusing on a small number of core exploration areas where the Company has superior technical knowledge;
- Operate exploration plays at a high working interest, with the goal of a minimum 50% participation;
- Explore in areas where Gentry can operate and control its own transportation and processing facilities;
- Target prospects that will maintain a balanced production profile between oil and natural gas;
- Remain opportunity-driven to capitalize on high-impact plays.

STABLE PRODUCTION BASE

Gentry's aggressive exploration program is supported by a base of non-operated production which is characterized by stability, longevity and operating efficiency. Gentry holds interests in some of Western Canada's highest quality producing units—all of them operated by highly respected companies with considerable technical expertise, who consider the assets to be core areas of operations. These properties have stable production, decline rates as low as 4%, and a combined reserve life of over 15 years. Gentry is leveraging the cash flow generated by these producing assets into its full-cycle exploration programs which are yielding higher impact growth in both reserves and production.

PRINCESS

Princess was Gentry's first core exploration area where the Company is targeting high-impact Nisku gas and long-life Pekisko oil reserves.

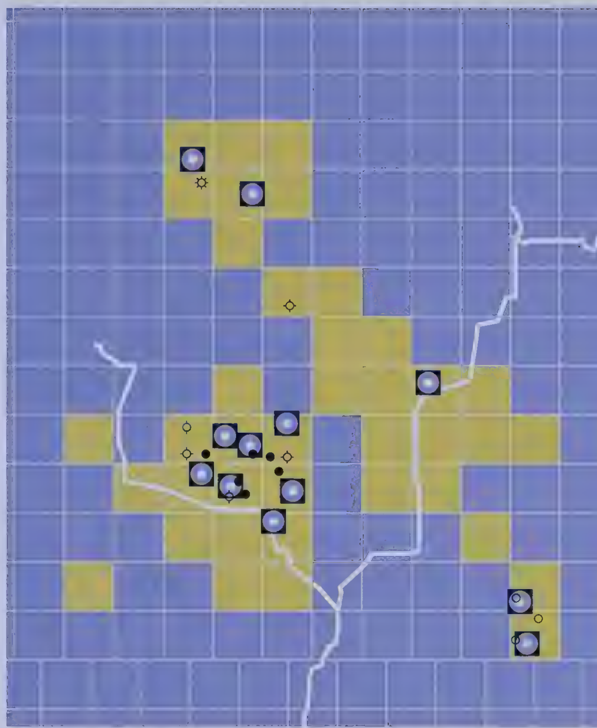
The Company's first well in late 2001 was a major Nisku discovery that tested with an absolute open flow potential of 12 mmcf/d. In March 2004, Gentry drilled a development well into this Nisku gas pool which is presently being tested.

Gentry's second successful exploration program has been the Pekisko formation which has yielded a significant oil development program immediately south of the Nisku gas field. Since mid-2002, the Company has drilled 12 Pekisko oil wells in this project and expects to drill at least five more wells once approval on a downspacing application has been granted. Pekisko production increased during 2003 such that an oil battery is required to further enhance the production performance of the field.

In 2003, Gentry negotiated a working interest position in shallower horizons and three wells were recently drilled, all of which were cased and are awaiting completion.

ACTIVITY SUMMARY

- Construction of an 11.2 km pipeline was completed in March 2003 to bring the Nisku discovery well on production at a rate of 2.2 mmcf/d.
- An additional Nisku well was drilled in 2004 and is awaiting completion and tie-in.
- Gross production from the Pekisko project peaked in December 2003 at 1,000 bbls/d and over 1.0 mmcf/d of associated gas from six wells.
- Oil production for the Pekisko pool is presently restricted due to facility constraints. Gentry plans on constructing additional fluid handling capacity in 2004 to double oil production from the field and allow additional drilling.



Land: 39 sections

Operator: Gentry Resources

Working Interest: 30-50%

Gentry Lands

2003 Drilled Locations

Natural Gas Well

Oil Well

D&A Gas Well

D&A Oil Well

Drilling Location

Land: 36 sections

Operator: Gentry Resources

Working Interests: 50-100%

Gentry Lands

2003 Drilled Locations

Natural Gas Well

Oil Well

D&A Gas Well

D&A Oil Well

Drilling Location

TIDE LAKE

Tide Lake is located directly east of Gentry's highly successful exploration at Princess. While the two areas share similar characteristics, Tide Lake holds greater upside on two fronts. A greater number of zones are available for exploitation, including the high-impact Nisku gas and the oil-prone Pekisko horizon producing at Princess, as well as numerous Cretaceous gas targets. Tide Lake is also predominantly Crown land which has allowed for aggressive expansion through land sale activity. Gentry now controls 36 sections of land with varying mineral rights ownership and will continue to increase its dominance in the area.

The technical knowledge and exploration models developed at Princess are transferable to the Tide Lake area. During 2003, activity focused on 3D seismic acquisition and interpretation and an initial phase of exploratory drilling. Gentry plans to move forward with additional drilling in 2004 utilizing the information gained from its initial program. To date, six exploratory wells have yielded one Pekisko oil well and two Mannville gas wells are awaiting tie-in.

ACTIVITY SUMMARY

- Two separate 3D programs were shot in 2003 encompassing 70 sq. km, and an additional 10 sq. km 3D survey will be shot in 2004.
- Aggressive land acquisition has given Gentry control of 36 sections at working interests ranging from 50 to 100%.
- Gentry drilled six wells in 2003 including a successful horizontal well into the Pekisko and two successful Mannville wells.
- Gentry plans to drill up to six more exploratory wells in 2004.

WHITECOURT

Whitecourt became an area of exploration focus in late 2002 following the drilling of a successful exploratory oil well. Since then, the region has become a core exploration area as a major land expansion and significant drilling program have increased Gentry's position. From a standing start just over a year ago, Gentry now controls 48 sections of land primarily in the Goodwin, Windfall and Blueridge areas. Fifteen wells have been drilled in the last 24 months yielding three gas wells and six dry and abandoned wells. Six wells are standing and awaiting tie-in.

Whitecourt has the highest risk profile in Gentry's exploration portfolio and garners the highest drilling costs, but the prize of multiple bcfs of gas reserves and production rates greater than 1 mmcf/d economically justify the risks involved.

To manage the risk, Gentry is targeting medium-depth prospects from multiple zones ranging from 400 to 1,800 metres. Multiple zones can be encountered in a single wellbore as four zones were delineated in one of Gentry's wells during 2003. To spread the risk further, the Company is taking smaller working interests compared to its other core areas, typically in the range of 20 to 50%. To date, seismic evaluation of these prospects has utilized primarily 2D seismic data, however, a 3D seismic survey will be shot in 2004 to attempt to further mitigate risk.

ACTIVITY SUMMARY

- 12 wells (4.5 net) were drilled in 2003 and into first quarter 2004, with nine yielding gas.
- Three gas wells are on production at 1.7 mm/d and six gas wells are awaiting tie-in.
- A 10 sq. km 3D program will be shot in 2004 to evaluate multiple targets.
- An additional 5 to 10 wells could be drilled in 2004.

Land: 48 sections

Operator: Gentry Resources and Vaquero Energy

Working Interests: 20-50%

Gentry Lands

2003 Drilled Locations

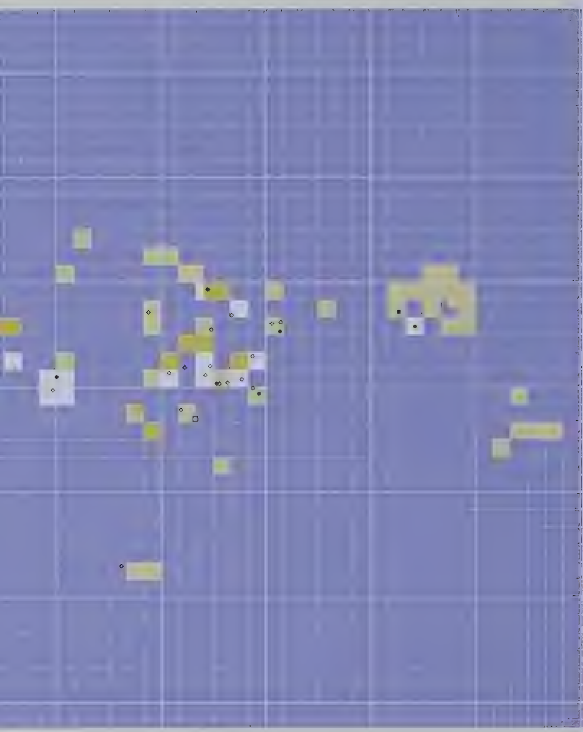
Natural Gas Well

Oil Well

D&A Gas Well

D&A Oil Well

Drilling Location



Land: 60 sections

Operator: Gentry Resources

Working Interests: 25-100%

Gentry Options Lands

Gentry Acquired Lands

Gentry Earned Lands

2003 Drilled Locations

Natural Gas Well

Oil Well

D&A Gas Well

D&A Oil Well

Drilling Location

SEDALIA

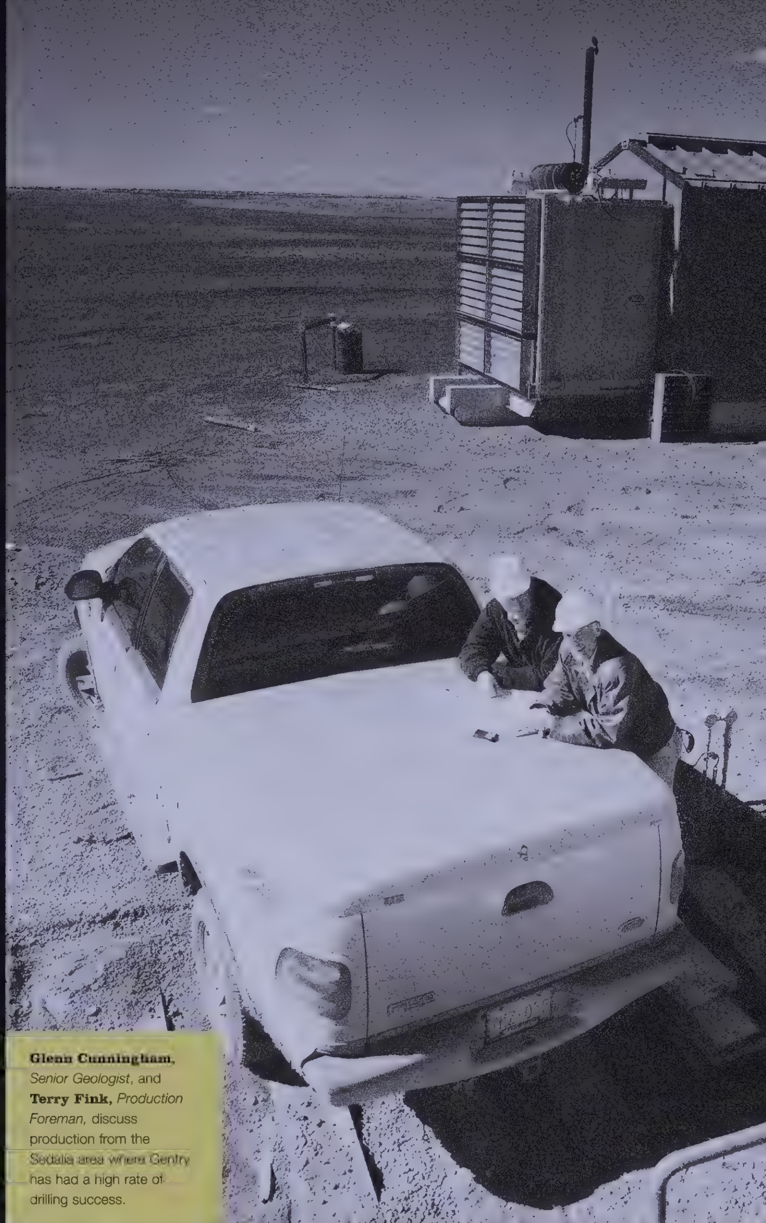
Sedalia has grown rapidly since Gentry first negotiated a three-section farm-in early in 2002. The area's shallow gas, multi-zone targets have the lowest risk profile in Gentry's exploration portfolio. Drilling costs are also low, anywhere between $110 thousand and $150 thousand per well. Wells are typically tied-in and generating cash flow in about 45 days from rig release and, at today's gas prices, payout can be less than three months. With Gentry's drilling success of 84%, current production is approximately 3.1 mmcf/d net to the Company.

With the quick cash flow capability at Sedalia, Gentry has aggressively moved forward to acquire land immediately offsetting the Sedalia area. Thirty-seven sections ranging from 50 to 100% working interest have been acquired west of the initial Sedalia activity, while another 19 sections are under Gentry's control east of Sedalia at a 25 to 100% working interest position.

While current production is from the Viking and Colony horizons, exploration is moving towards two other target zones. Gentry has purchased 2D seismic to add to its already extensive database, and will be attempting to template plays that have proved successful in the area.

ACTIVITY SUMMARY

- 15 wells (12.4 net) were drilled in 2003 resulting in 11 gas wells. Nine of the wells are now on production.
- To date in 2004, two successful wells were drilled which should be tied-in during the second quarter.
- Aggressive land expansion will continue in 2004.
- Ten wells are planned for first half 2004.



Glenn Cunningham, *Senior Geologist*, and **Terry Fink,** *Production Foreman*, discuss production from the Sedalia area where Gentry has had a high rate of drilling success.

Excellent drilling success at Sedalia has led to major expansion of the play. The area has low-risk shallow gas targets, low drilling costs and wells are onstream very quickly making it a source of immediate cash flow.

84%

Terry Fink,

Production Foreman, is regularly in the field, checking and optimizing the Company's operations.

Gentry's success in 2003 led to steady production increases from a first quarter average of 1,595 boe/d to a December average rate of 2,258 boe/d.

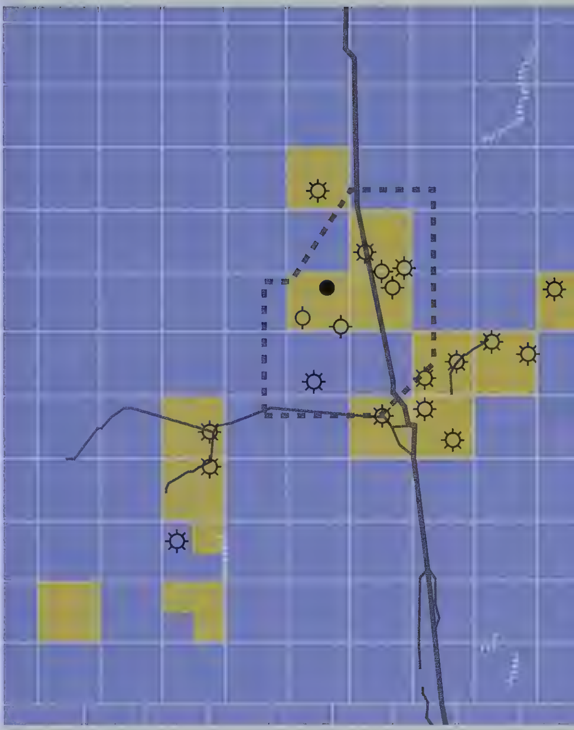
2003 DECEMBER
AVERAGE RATE

2,258 boe/d

RED WILLOW

Red Willow was Gentry's first property to be developed under its full-cycle exploration strategy. The Company gained entry to the area in 1999, acquired significant lands and achieved excellent drilling success. The area has produced approximately 350 thousand boe. Red Willow has unexploited Viking potential and 3D seismic is currently being upgraded. Additional drilling is planned for second quarter 2004.

Product	Gas
2003 average production	265 boe/d
Total company production	15%
2003 reserves	148 mboe
Total company reserves	2%
Land	8,320 acres
Working interest	23% to 100%
Operator	Gentry Resources, PetroBank



WEST PROVOST

The West Provost Gas Unit is a large 89-section property with a long-life production base estimated at 16 years. Significant infill locations still exist in the unit and the operator is continuing to evaluate low risk development opportunities. Gentry is the second largest interest owner.

Product	Unit gas and non-unit oil
2003 average production	152 boe/d
Total company production	9%
2003 reserves	877 mboe
Total company reserves	14%
Land	57,440 acres
Working interest	26% to 32%
Operator	Real Resources

Gentry Lands

BENSON

The Benson Unit is typical of Gentry's solid Saskatchewan Mississippian production base. The Company has a 10.9% interest in the unit plus royalty income. Gentry's royalties provide an additional 128 thousand barrels of reserves that are unreported with the National Instrument 51-101 rules.

Product	Medium crude oil
2003 average production	81 bbls/d
Total company production	5%
2003 reserves	607 mbbls
Total company reserves	10%
Working interest	10.9%
Operator	Talisman Energy

STEELMAN UNITS

Steelman is a high quality asset providing stable production and cash flow. The large project area consists of three separate units characterized by low decline rates and a reserve life of 35 years. Next to the operator, Gentry is the second highest working interest owner in two of the units. The property has significant infill drilling potential.

Product	Light oil and associated gas
2003 average production	126 boe/d
Total company production	7%
2003 reserves	572 mboe
Total company reserves	9%
Land	33,656 acres
Working interest	2.7% to 19.9%
Operator	Canadian Natural Resources

DOLLARD

Dollard is characterized by a stable production base, low decline rates, high quality 23° API crude and a long reserve life of 42 years due to an active waterflood. The property's infill potential will be exploited in 2004 with additional wells planned for the second quarter. Gentry and the operator are the only partners in the project.

Product	Medium-Heavy Oil
2003 average production	87 bbls/d
Total company production	5%
2003 reserves	723 mbbls
Total company reserves	11%
Land	9,000 acres
Working interest	3.8%
Operator	Talisman Energy

VIRDEN ROSALEA

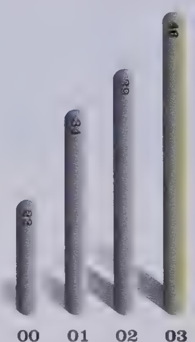
Virden Rosalea is a high performance reservoir with characteristics exhibited by much of Gentry's production base: long-life reserves and stable production. Several horizontal wells are planned for second quarter 2004. Gentry holds the largest interest in the property next to the operator.

Product	Medium Oil
2003 average production	46 bbls/d
Total company production	3%
2003 reserves	210 mbbls
Total company reserves	3%
Land	3,560 acres
Working interest	10.6%
Operator	Chevron Canada Resources

NET ACRES (Western Canada)
(by geographic region)

NET UNDEVELOPED LAND (Western Canada)
(acres)

NET UNDEVELOPED LAND (Western Canada)
(net working interest %)



Gentry's land acquisition program is critical to maintaining the momentum in its full-cycle exploration. Aggressive and timely land acquisitions have led to an increase in drilling activity, a larger number of drilling locations in inventory, and operatorship of its core exploration areas.

OBJECTIVES ACHIEVED

Two important objectives were achieved in 2003—a major increase in undeveloped acreage and a significant increase in Gentry's ownership in those lands. In the past three years, Gentry has seen a three-fold increase in net undeveloped acreage. In 2003 alone, net undeveloped land in Western Canada was up 48% to 51,266 acres from 34,620 acres in 2002. Essentially all of the 2003 increase was for acreage acquired in Gentry's four core exploration areas, including nearby prospective acreage that has allowed the Company to expand the geographic reach of its focus areas.

The Company has also significantly increased its working interests in its undeveloped acreage. In 2003, Gentry's average working interest in its Western Canada net acreage had grown to 46% from 39% in 2002 and from 23% in 2000.

LAND STRATEGY

Gentry's strategy is to maintain a minimum of 50% working interest and to operate its exploration programs. To achieve those objectives, a strategic shift has taken place in the land acquisition program. Originally, the Company emphasized farm-ins in small land holdings to gain a foothold in new areas. That tact has

Two important objectives were achieved in 2003—major increases in undeveloped acreage and Gentry's ownership in those lands. Undeveloped land in core exploration areas increased 48% from 2002 to 51,266 net acres.

Cam Fraser, *Manager of Land and Negotiations*, works hard to increase Gentry's land holdings while successfully solving landowners' environmental concerns.

INCREASE IN UNDEVELOPED CORE AREA LAND

48%

George Magarian, *Exploration Manager,* thoroughly reviews each well proposed by his technical team with an eye to keeping Gentry's success rates high and finding costs low.

Gentry drilled 55 wells (27.7 net) in 2003, up from 35 wells (12.6 net) in 2002. Gentry will maintain its exploration momentum with 34 net wells planned in 2004.

NET WELLS DRILLED

120%

changed to the exploration team driving the land acquisition program as it pursues geological trends within and outside the boundaries of its core areas. The Company has aggressively moved to posting large blocks of land, bidding at higher working interests and operating the play.

The shift from farm-in to an aggressive land acquisition strategy has many competitive advantages. Exploration is proceeding without the work and time commitments associated with farm-ins. Gentry's exploration is now based on its own internally-developed exploration models, and the timing for development drilling, infrastructure commitments and marketing are under the Company's control. Often, the economics are improved as Gentry can control capital expenditures, initiate operations during more cost efficient periods and decide how to spread the risk and whether to bring partners into the play.

In 2004, Gentry will continue to pursue land acquisitions that will enable it to maintain momentum in the exploration program for the coming years. The Company will continue to expand its core areas with an emphasis on prospects where it has developed internal expertise, where it can operate, and where it can maintain a high working interest position.

LAND STEWARDSHIP

Gentry believes that land stewardship is an important aspect of its operations. The Company works closely with local land owners to identify concerns and to ensure its operations have minimal disruption on the land itself or residents' quality of life. As part of this commitment, the Company supports local community and environmental projects. As one example, in the Princess area Gentry sponsored the release of 500 pheasants, an idea that had been developed with local organizations. Gentry will continue to work in partnership with local landowners and be an active member of local communities.

WESTERN CANADA LAND HOLDINGS

	2003 Gross	2002 Gross	% change	2003 Net	2002 Net	% change
Developed	120,144	106,783	13	46,334	36,981	25
Undeveloped	110,484	87,031	27	51,266	34,620	48
TOTAL	230,628	193,814	19	97,600	71,601	36

TOTAL LAND HOLDINGS

	2003 Gross	2002 Gross	% change	2003 Net	2002 Net	% change
Alberta	214,508	178,695	20	89,271	63,320	41
Saskatchewan	15,800	14,799	7	8,088	8,040	1
Manitoba	320	320	—	241	241	—
Western Canada Total	230,628	193,814	19	97,600	71,601	36
Gulf of St. Lawrence	376,920	376,920	—	37,692	37,692	—
Total	607,548	570,734	6	135,292	109,293	24

The following table outlines the Company's reserves as at December 31, 2003 as independently evaluated by Martin & Brussett Associates.

2003 RESERVES

	Oil & Liquids (mbbls)	Gas (mmcf)	Oil Equiv. (mboe)	10% ($000s)	12% ($000s)	15% ($000s)
Proved						
Developed Producing	2,040	8,411	3,442	29,245	27,199	24,780
Developed Non-producing	65	802	199	2,373	2,309	2,219
Undeveloped	15	416	84	290	245	189
Total Proved	2,120	9,629	3,725	31,908	29,753	27,188
Probable						
Developed	869	4,108	1,554	14,182	13,263	12,144
Undeveloped	158	5,832	1,130	12,958	12,371	11,585
Total Probable	1,027	9,940	2,684	27,140	25,634	23,729
Proved plus Probable	3,147	19,569	6,409	59,048	55,387	50,917

RESERVES RECONCILIATION—WORKING INTEREST RESERVES

	Oil & Liquids (mbbls)			Gas (mmcf)			Total (mboe)		
	Proved	Probable	Total	Proved	Probable	Total	Proved	Probable	Total
Dec. 31 2002	2,273	569	2,842	9,675	3,491	13,166	3,886	1,150	5,036
Discoveries & Extensions	176	295	471	1,982	5,680	7,662	506	1,242	1,748
Revisions	(2)	163	161	(83)	769	686	(16)	292	276
Production	(327)	—	(327)	(1,945)	—	(1,945)	(651)	—	(651)
Dec. 31 2003	2,120	1,027	3,147	9,629	9,940	19,569	3,725	2,684	6,409

Notes: Natural gas is converted to boe on the basis of 6 mcf = 1 boe.

All reserves (and calculations thereon) are based on a proved plus probable basis for 2003 and a proved plus 50% probable (established) basis prior thereto.

Prior to 2003, most Canadian oil and gas companies, including Gentry, reported their gross reserves as all reserves in which they owned a beneficial interest, including royalty interest barrels. As NI 51-101 requires royalty interest barrels owned by the Company to be excluded from gross reserves, Gentry has herein restated, for comparative purposes, its prior period reserves to exclude these barrels.

PRODUCTION REPLACEMENT RATIO

Year	2003
Oil & Liquids	193%
Gas	429%
Boe	311%

RESERVE LIFE INDICES— PROVED PLUS PROBABLE

Years	2003	2002	2001
Oil & Liquids	8.9	8.1	7.4
Gas	7.0	6.9	9.4
Boe	7.8	7.5	8.2

FINDING & DEVELOPMENT COSTS

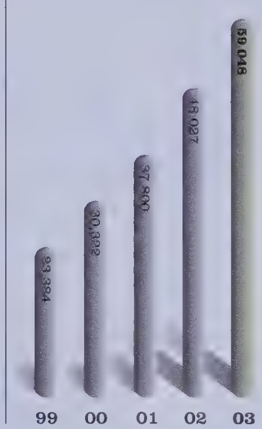
3 Year Average	Proved	Proved Plus Probable
2001	$ 4.42	$ 3.73
2002	$ 8.07	$ 6.54
2003	$ 18.49	$ 9.49

PRICING FORECAST

	WTI Oil $US/bbl	Edmonton Lt Oil $C/bbl	Spot Natural Gas $C/mmbtu
2004	28.58	36.97	5.52
2005	26.30	34.03	5.13
2006	25.20	32.71	4.88
2007	25.18	32.69	4.84
2008	25.49	33.09	4.88

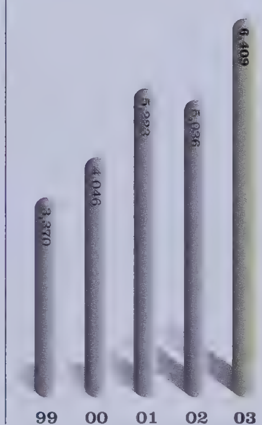
NET PRESENT VALUE

($000s) (discounted at 10%)



BOE RESERVES

(mboe)



Gentry has exposure to high-impact international exploration through a 19% equity interest in Stratic Energy Corporation. Stratic's strategy is to identify international areas that are either in the early stages of exploration, in under-developed basins or where there is significant redevelopment potential. Stratic gains entry to a play and often partners with major companies to conduct initial exploration.

In 2003 and early 2004, Stratic was awarded interests in four U.K. North Sea offshore blocks and two onshore blocks in Morocco. These interests are in addition to its other focus areas in West and North Africa and the Middle East.

U.K. NORTH SEA

In August 2003, Stratic acquired 100% interests in three blocks in the United Kingdom Continental Shelf Seaward Licensing Round, which was held to create opportunities for technically strong, independent companies. Two of the blocks, 16/11 and 16/16, are located in the Central North Sea and the third block, 211/16b, is found in the Northern North Sea. Under the licence, Stratic has a two-year period to complete technical studies and evaluations. Stratic will initially acquire and reprocess 2D and 3D seismic and well data.

Stratic's fourth North Sea block, 9/28a, was awarded in March 2004 with the company acquiring a 5.58% interest. Located in the Northern North Sea, the block contains the Crawford Field which was abandoned in 1991 after producing four million barrels of oil from a large structure estimated to contain more than 250 million barrels of initial oil in place. Stratic and its three partners will employ 3D seismic to investigate redevelopment potential. The field, which has been renamed "Cragganmore," increases Stratic's exposure to a potential near-term revenue producing property.

MOROCCO

In March 2004, Stratic acquired exploration rights at a 36% working interest in two large concessions located onshore Morocco. The two contiguous concessions encompass 4,000 sq. km and existing seismic indicates shallow gas anomalies and highly prospective deeper oil accumulations. One of the blocks contains the Ain Hamra oil field which was discovered in the 1920s and produced light oil sporadically until the late 1950s. Under an initial three-year term, Stratic and its two partners will shoot and evaluate 2D seismic and are likely to drill both the shallow and deeper zones. The first well is expected to spud in late 2004 or early 2005.

CÔTE D'IVOIRE

Stratic was responsible for identifying and then opening up exploration offshore Côte d'Ivoire, which then evolved into one of West Africa's leading international exploration plays. Stratic holds interests in two blocks: 85.5% in CI-102 and 87.5% in CI-103. Both are located adjacent to major activities: the Espoir field which commenced production in 2002; a large discovery at Baobab drilled in 2001; and, a more recent discovery at Acajou. Stratic has identified a lead prospect, Ako, on 3D seismic which is an anomaly similar to Baobab in a similar geological setting. Stratic is seeking a funding partner and is in discussions with a number of interested companies.

OTHER FOCUS AREAS

Stratic's other areas of interest include Syria, where the government has invited Stratic to negotiate for an onshore block located close to the huge Palmyra gas field; and Algeria, where Stratic and its partners are evaluating interests in two blocks located close to the massive Hassi Massoud oil field. Stratic is also investigating opportunities onshore Kenya and offshore Tanzania.

This Management's Discussion and Analysis (MD&A) should be read in conjunction with the Consolidated Financial Statements of the Company.

Where amounts are expressed on a barrel of oil equivalent (boe) basis, natural gas has been converted at a ratio of six thousand cubic feet of natural gas to one boe. This ratio is based upon an energy equivalent conversion method primarily applicable at the burner tip and does not represent economic equivalence at the wellhead or point of sale. Boe figures may be misleading, particularly if used in isolation.

Included in the MD&A are references to financial measures commonly used in the oil and gas industry such as cash flow and cash flow per share. These measures have no standardized meaning, are not defined by Canadian generally accepted accounting principles, and accordingly are referred to as non-GAAP measures. Cash flow and cash flow per share are used by the Company to assess operating results between years and between peer companies. Gentry's reported amounts may not be comparable to similarly titled measures reported by other companies. Cash flow should not be considered an alternative to, or more meaningful than, cash provided by operating, investing, and financing activities or net income as determined by Canadian GAAP as an indicator of the Company's performance or liquidity.

Effective January 1, 2003, the Company has adopted retroactively, with restatement of prior periods, the Canadian Institute of Chartered Accountants' new standard on Asset Retirement Obligations. As a result, certain comparative figures have been restated in compliance with the new policy. A summary of the effects of this new policy is contained in the "New Accounting Standards for 2003 and 2004" section of this MD&A.

Certain disclosure in this MD&A contains forward-looking statements that involve risks and uncertainties. Such information, although considered reasonable by Gentry at the time of preparation, may prove to be incorrect and actual results may differ materially from those anticipated in the statements made. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Such risks and uncertainties include, but are not limited to, risks associated with operations, loss of market, regulatory matters, commodity price risk, environmental risks, industry competition, and ability to access sufficient capital from internal and external sources.

Additional information relating to the Company, including the Company's Annual Information Form, can be found at www.sedar.com.

The date of this MD&A is April 19, 2004.

PRODUCTION AND PRICING

With Gentry's shift to full-cycle exploration, the majority of its activities and a growing amount of its oil and gas production are from Alberta. Previously, most of the Company's oil production had been derived from Saskatchewan and the majority of its gas production was generated in Alberta. Whereas the Saskatchewan crude varies from medium to light gravity in the southeast of the province to a heavier blend in the central area, the new Alberta crude is a medium to heavy gravity oil. Gentry's growth in gas production is coming largely from the southern portions of Alberta.

Oil & Liquids	Revenue ($ thousands)	Volume (bbls/d)	Price ($/bbl)
2003	11,860.4	897	36.22
2002	12,139.8	991	33.55
2001	9,984.1	937	29.19

Natural Gas	Revenue ($ thousands)	Volume (mcf/d)	Price ($/mcf)
2003	12,819.4	5,330	6.59
2002	7,215.8	4,741	4.17
2001	6,236.3	3,275	5.22

Boe	Revenue ($ thousands)	Volume (boe/d)	Price ($/boe)
2003	24,679.8	1,785	37.87
2002	19,355.6	1,781	29.77
2001	16,220.4	1,483	29.97

Gross production revenue increased 28%, or $5.32 million, to $24.68 million from $19.36 million in 2002. This substantial increase was due to higher commodity prices, primarily for natural gas, and a 12% increase in natural gas production, offset by a 9% decrease in the production of oil and liquids.

Gentry's average natural gas price increased to $6.59/ mcf, up 58% from the 2002 average of $4.17/mcf. This price rise added $4.71 million to 2003 revenues. Prices for oil and liquids showed a more moderate increase, up 8% to $36.22/bbl from $33.55/bbl in 2002, which had the effect of increasing revenues by $874 thousand.

Volume wise, the increased gas sales from 4,741 mcf/d to 5,330 mcf/d contributed $896 thousand to gross revenue. This could not offset the $1.16 million lost due to reduced oil & liquids sales which fell from 991 bbls/d to 897 bbls/d.

In the above table, 2001 revenue includes a hedging gain. The Company hedged 300 bbls/d of oil at a price of $43.69/bbl resulting in a gain of $391 thousand. Gentry did not enter into any forward contracts in 2002 or 2003 and none are in place for 2004.

ROYALTIES

Gentry's royalties, net of Alberta Royalty Tax Credit (ARTC), increased 20% to $5.07 million from $4.23 million in 2002. Expressed as a percentage of production, oil royalties were 22.6% in 2003 versus 22.2% in 2002. Gas royalties were 18.6% in 2003 compared with 21.2% in 2002. On a boe basis, the percentages were 20.5% in 2003 and 21.8% in 2002. The shift in production weighting from Saskatchewan to Alberta, which generally has a more favorable royalty regime for the Company's assets, is the primary reason for the overall decrease in royalties as a percentage of revenues.

($ thousands)	**2003**	2002	2001
Crown royalties	**3054.7**	2,225.3	1,575.3
Freehold royalties	**1821.7**	1,634.3	828.3
Overriding royalties	**502.2**	528.9	464.3
Total royalties	**5,378.6**	4,388.5	2,867.9
ARTC	**(311.5)**	(163.3)	(116.2)
Net royalties	**5,067.1**	4,225.2	2,751.7
As a percentage of production revenue (prior to hedging)	**20.5**	21.8	17.4

PRODUCTION EXPENSES

Gross production expenses increased 28% to $5.73 million from $4.46 million in 2002. The majority of the increase was attributable to a full, active year of production at Princess. On a barrel of oil equivalent basis, costs increased 28% to $8.80/boe from $6.86/boe in 2002. Production problems at Baldwinton, as well as interruptions associated with bringing on new pool production at Princess, were the two leading factors to this increase. As the proportion of Baldwinton's contribution falls, and as the Company's history, experience and production at Princess grows, production expenses should fall closer to the levels realized in 2002.

GENERAL AND ADMINISTRATIVE EXPENSES

Gentry's general and administrative expenses increased 23% to $2.53 million in 2003 from $2.06 million in 2002. Just over half of this increase was due to additional staff and compensation requirements as the Company continued to expand its activities. On a barrel of oil equivalent basis, general and administrative expenses increased 22% to $3.88/boe from $3.17/boe in 2002. Going forward, moderate increases to gross administrative costs are expected, however, as production increases, it is anticipated that per unit costs will decline.

Included in general and administrative expenses was $113 thousand in stock-based compensation that was expensed as the Company prospectively adopted new standards with respect to accounting for stock option grants. This figure represents the value, using the Black-Scholes option-pricing method, of stock options granted in 2003.

INTEREST EXPENSE

Gentry's interest expense increased to $484 thousand in 2003 from $407 thousand in 2002. This increase was due to greater use of the Company's credit facilities to fund its capital exploration programs. During the first half of the year, Gentry paid interest on its outstanding loan balance at a rate of prime plus 3/4%. For the latter half, the rate was reduced to prime in conjunction with the increase in line of credit from $12 million to $14 million.

DEPLETION AND DEPRECIATION

Depletion and depreciation charges for 2003 were $7.08 million compared with $4.27 million in the previous year. This trend is expected to continue as the Company increases its asset base through its capital programs. On a barrel of oil equivalent basis, costs increased to $10.86/boe versus $6.57/boe in 2002.

The Company's depletion rate grew to 14.54% in 2003 from 13.16% in 2002. The depletion calculation was based on year-end proved reserves estimates at constant prices and costs. These reserves were 8% lower than the 2002 estimates, primarily as a result of changes to reserves definitions under National Instrument 51-101, and this accounted for the increased depletion rate.

INCOME TAXES

Gentry was liable for $941 thousand in current taxes in 2003 which was a negligible decrease from $951 thousand in 2002. On a unit of production basis, current taxes were also similar, at $1.44/boe versus $1.46/boe in 2002.

Future taxes declined substantially to $87 thousand in 2003 from $648 thousand in 2002. This decrease was largely due to reductions in future federal and provincial income tax rates payable by the Company. On a unit of production basis, future taxes for 2003 equated to $0.13/boe versus $1.00/boe in 2002.

As a result of a flow-through financing in 2002, Gentry agreed to renounce $1.65 million of Canadian Exploration Expenditures. $106 thousand was incurred prior to year-end 2002 and the remaining $1.54 million was incurred in 2003.

At the end of 2003, Gentry had approximately $25.58 million of accumulated tax pools that are available for deduction against income in future years.

($ thousands)	Available Balance	Maximum Annual Deduction
Canadian oil & gas property expense	9,476.8	10%
Canadian development expense	3,259.5	30%
Canadian exploration expense	4,670.6	100%
Foreign exploration & development expense	436.4	10%
Undepreciated capital cost	7,149.2	20-100%
Cumulative eligible capital	68.8	7%
Financing costs	521.8	20%
Total	25,583.1	

CASH FLOW AND NET INCOME

In 2003, cash flow from operations reached a record high of $10.39 million, an increase of 40% from $7.42 million in 2002. This amounts to $0.42 per share ($0.40 diluted) versus $0.34 per share ($0.32 diluted) in 2002. This increase was largely achieved from higher net production revenues as a result of increases in commodity prices.

Net income increased 25% to $3.04 million from $2.44 million in 2002. On a per share basis, net income was $0.12 ($0.12 diluted) in 2003 compared to $0.11 ($0.10 diluted) in 2002. In assessing the change in net income, the positive impact of the extra $2.97 million in cash flow, coupled with a comparative savings of $561 thousand in future taxes, were greatly reduced by the additional $2.81 million in depletion and depreciation charges.

NETBACKS

($/boe)	**2003**	2002	2001
Selling price	**37.87**	29.77	29.97
Royalties (net of ARTC)	**(7.78)**	(6.50)	(5.08)
Production expenses	**(8.80)**	(6.86)	(8.16)
Operating netbacks	**21.29**	16.41	16.73
Administration	**(3.88)**	(3.17)	(3.66)
Interest	**(0.74)**	(0.63)	(0.68)
Current taxes	**(1.44)**	(1.46)	(1.08)
Other income	**0.44**	0.26	0.27
Non-cash compensation	**0.27**	—	—
Cash flow	**15.94**	11.41	11.58
Depletion and depreciation	**(10.86)**	(6.57)	(5.55)
Future taxes	**(0.13)**	(1.00)	(1.12)
Other items	**(0.01)**	(0.09)	(1.69)
Non-cash compensation	**(0.27)**	—	—
Net income	**4.67**	3.75	3.22

CAPITAL EXPENDITURES

Net capital expenditures increased 151% in 2003 to $21.65 million from $8.62 million in 2002. The increase was due to a record level of activity for the Company as it continued to increase drilling in all of its core exploration areas; pursue an aggressive land acquisition program to facilitate further exploration activities; and to acquire and build additional infrastructure to bring new volumes onstream.

($ thousands)	**2003**	2002	2001
Exploration and development	**9,723.8**	5,113.1	4,101.4
Facilities and equipping	**4,208.4**	1,298.4	1,429.7
Acquisitions, net of dispositions	**2,503.6**	—	2,131.9
Land and seismic	**4,160.4**	1,355.6	1,553.5
Capitalized expenses	**848.0**	796.3	756.0
Other	**209.3**	57.5	119.7
Total	**21,653.5**	8,620.9	10,092.2

The Company participated in 55 gross wells (27.7 net) in 2003 for a success rate of 71% (73% net). This compares to 35 gross wells (12.6 net) and a success rate of 89% (76% net) in 2002.

LIQUIDITY AND CAPITAL RESOURCES

On October 30, 2003, Gentry closed a bought deal financing with a syndicate of underwriters. Three million shares were issued at a price of $1.75 per share for gross proceeds of $5.25 million. The proceeds were initially applied to Gentry's bank indebtedness and then drawn on to fund capital commitments as required.

Gentry began the year with 23,783,263 common shares issued and outstanding. During 2003, 3,000,000 shares were issued pursuant to the aforementioned financing; 350,000 and 585,000 shares were issued on the exercised of previously issued share purchase warrants and incentive stock options ($1.75 and $0.52 per share respectively); 76,045 shares were issued pursuant to the Company's employee share purchase plan ($1.64 per share); and 441,800 shares were repurchased and cancelled pursuant to the Company's Normal Course Issuer Bid ($1.54 per share). As a result of these changes, Gentry ended the year with 27,352,508 common shares issued and outstanding.

As of the date of this MD&A, 27,370,521 common shares are outstanding. A further 2,375,000 shares are reserved for issuance pursuant to the exercise of outstanding share incentive stock options (at an average price of $0.90 per share) and 125,000 shares are reserved for issuance pursuant to the exercise of outstanding share purchase warrants ($1.75 per share).

Gentry's year-end net debt (current liabilities in excess of current assets) was $13.44 million compared with $7.22 million at the end of 2002. Gentry's credit limit stands at $14 million and is currently being reviewed based upon the Company's January 1, 2004 Reserves Report.

CONTRACTUAL OBLIGATIONS

In the normal course of business, Gentry has entered into the following contractual obligation and commitment::

	Payments due in period		
($ thousands)	2004	2005 to 2008	Total
Office lease	174	680	854

NET ASSET VALUE

At December 31, 2003, the Company's net asset value, based on a 10% discount on future cash flow, equated to $2.17 per share compared with $2.12 per share in 2002. At a 15% discounted value, the figures were $1.87 and $1.84 per share respectively.

($ thousands, except per share amounts)

Discounted at 10%	**2003**	2002	2001
Reserves	**59,048**	48,027	37,800
Undeveloped land and seismic (a)	**9,960**	5,475	3,073
Investments (b)	**3,827**	4,028	2,341
Net debt	**(13,443)**	(7,225)	(7,817)
Net Asset Value	**59,392**	50,305	35,397
Common shares outstanding	**27,353**	23,783	22,317
Net asset value per common share	**2.17**	2.12	1.59

Discounted at 15%	**2003**	2002	2001
Reserves	**50,917**	41,520	31,563
Undeveloped land and seismic (a)	**9,960**	5,475	3,073
Investments (b)	**3,827**	4,028	2,341
Net debt	**(13,443)**	(7,225)	(7,817)
Net Asset Value	**51,261**	43,798	29,160
Common shares outstanding	**27,353**	23,783	22,317
Net asset value per common share	**1.87**	1.84	1.31

(a) Internal estimate
(b) Market value as at December 31st.

FOURTH QUARTER RESULTS

Gentry's financial and operating highlights from the fourth quarter of 2003, as compared with the fourth quarter of 2002, are summarized below:

Three months ended December 31

Financial

($ thousands)	2003	2002	% Change
Gross revenue	**6,695.5**	5,942.5	13
Royalties, net of ARTC	**1,418.4**	1,282.8	11
Production expense	**1,795.6**	1,220.5	47
General and administrative	**847.0**	636.4	33
Current taxes	**243.2**	(4.6)	n/a
Cash flow	**2,514.4**	2,709.0	(7)
Depletion and depreciation	**2,847.1**	1,491.9	91
Future taxes	**(837.1)**	350.8	n/a
Net income	**329.4**	894.8	(63)
Net capital expenditures	**6,369.5**	2,876.3	121

Production

Oil and liquids (bbls/d)	**958**	1,010	(5)
Natural gas (mcf/d)	**6,865**	5,269	30
Boe (boe/d)	**2,103**	1,888	11

Average prices

Oil and liquids ($/bbl)	**33.62**	34.44	(2)
Natural gas ($/mcf)	**5.91**	5.66	4
Boe ($/boe)	**34.61**	34.22	1

The growth in production revenue in the fourth quarter of 2003, when compared to the fourth quarter of 2002, came largely from the increase in production volumes as prices were relatively similar in the periods. As expected, royalty expenses increased by slightly less than the same percentage, for the same reasons as they decreased on an annual basis.

Production expenses for the most recent quarter were up when viewed against the comparative period. Higher expenses associated with bringing on new production at Princess and workover costs at Red Willow were the main factors behind this increase.

General and administrative expenses were up 33% over the comparative quarter, with over half of the increase coming as a result of the Company including $113 thousand of stock-based compensation expense in this category. Increased engineering, consulting and compensation costs make up the bulk of the remaining difference.

Depletion and depreciation rose significantly in the fourth quarter of 2003. Higher production volumes and a larger asset base from a bigger capital expenditure program were the primary reasons for the increase.

The increase in depletion and depreciation was largely offset by the reversal of previously recorded future income taxes on capital assets, which itself was due in large part to the increased depletion charges.

Based largely on the foregoing, cash flow for the fourth quarter of 2003 was $2.51 million ($0.10 per share) compared to $2.71 million ($0.12 per share) in 2002. Net income was $329 thousand ($0.01 per share) versus $894.8 thousand ($0.04 per share) in the comparative quarter.

CRITICAL ACCOUNTING ESTIMATES

Gentry is required to make certain assumptions and estimates in the application of generally accepted accounting principles that may have a significant impact on the financial results of the Company. The following is a discussion of the estimates that are critical to Gentry's consolidated financial statements.

Oil and Natural Gas Reserves and Full Cost Accounting

Gentry follows the full cost method of accounting for its oil and gas properties and equipment as prescribed by the Canadian Institute of Chartered Accountants (CICA). Accordingly, all costs associated with the acquisition, development and exploration of oil and natural gas reserves are capitalized and then depleted using the unit-of-production method based on estimated proved reserves. A ceiling test keeps capitalized costs, less accumulated depletion and depreciation, future income taxes, and asset retirement obligations, from exceeding an amount equal to the estimated undiscounted value of future net revenues from proved reserves, less estimated future general and administrative expenses, asset retirement obligations, financing costs and income taxes.

Reserve estimates can have a significant impact on net income and the carrying value of property and equipment as they are the key component in the calculation of both depletion and depreciation and the ceiling test. Revisions to reserve estimates could result in a higher or lower depletion and depreciation expense being charged to net income while downward revisions to reserve estimates could result in a write down of property and equipment based on the ceiling test.

100% of Gentry's reserves are evaluated by the independent engineering firm of Martin & Brussett Associates. This evaluation requires significant estimates to be made on various engineering data as well as future production rates, capital expenditures, and commodity prices, all of which are subject to a number of uncertainties and various interpretations. The Company expects that over time its estimates of reserves will be revised, either upwards or downwards, based on future drilling, testing, production rates and commodity forecasts.

Asset Retirement Obligations

Gentry estimates the fair value of each asset retirement obligation. The obligation is based on current regulations, costs, technologies, and industry standards and is calculated using estimates for the timing of abandonment, inflation, and a credit-adjusted risk-free interest rate. The discounted obligation is initially capitalized as part of the carrying amount of the property and equipment and a corresponding liability is recognized. The increase in property and equipment is depleted and depreciated on the same basis as the remainder of the property and equipment. The liability is accreted against income, until it is settled or the property is sold, and is included as a component of depletion and depreciation expense.

Retirement obligations can have a material impact on both the consolidated balance sheets and consolidated statements of income of the Company. Revisions to any or all of the aforementioned factors and estimates used in calculating the obligation may result in a change to the carrying value of property and equipment and the related liability, as well as the depletion and depreciation expense charged to net income. The Company expects that over time its estimate

of its asset retirement obligations will be revised, either upwards or downwards, based on future regulations, costs, technologies, industry standards, timing of abandonments, and interest and inflation rates.

Stock-based Compensation

Gentry follows the fair value method of accounting for its stock-based compensation arrangements relating to stock options grants. The Company recognizes a compensation expense based on the fair value of the options on the date of grant using the Black-Scholes option-pricing method and amortizes the expense over the vesting period of the options. The Black-Scholes method requires estimates for the volatility of the Company's stock, a risk free interest rate, an expected dividend rate, and the expected life of the options. Changes in these estimates will change the fair value of the option and affect the compensation expense recorded in the consolidated financial statements.

Other Accounting Estimates

Gentry follows the accrual method of accounting which requires the Company to incorporate certain estimates in its financial and operating results. This includes estimates of revenues, royalties, production expenses and capital items for specific reporting periods for which actual results have not yet been received. Gentry ensures that the personnel with the most knowledge of the relevant activities are responsible for the estimates which are then reviewed for reasonableness. Past estimates are also compared to actual results in order to make more informed decisions when accruing future amounts.

NEW ACCOUNTING STANDARDS FOR 2003 AND 2004

During the past year, a number of changes to financial reporting requirements have been introduced. The following outlines the most notable changes and those which have the greatest impact on Gentry.

Full Cost Accounting

Effective for fiscal years beginning on or after January 1, 2004, the CICA issued Accounting Guideline 16—"Oil and Gas Accounting—Full Cost" which changes the calculation of the ceiling test. The new standard requires that an impairment be recognized if the carrying value of a long-life asset can not be recovered from its undiscounted future cash flows. An impairment, if required, is then determined as the difference between the carrying value and the fair value of the asset, such fair value to be based on the present value of the expected future discounted cash flows. Gentry performed this ceiling test calculation as at December 31, 2003 and there was no impact on the Company under the new guideline.

Asset Retirement Obligations

The CICA has introduced handbook section 3110—"Asset Retirement Obligations" which is effective January 1, 2004, although early adoption is encouraged. Under this section, the Company is required to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is first recorded, it is added at fair value to property and equipment. It is then amortized against income as a component of depletion and depreciation expense using the unit-of-production method. The Company elected to

adopt this policy effective January 1, 2003, with restatement of prior periods, and a summary of the effects of this new policy is contained in Note 3 of the Consolidated Financial Statements.

Stock-based Compensation

On October 1, 2003, and with effect from January 1, 2003, the Company prospectively adopted the CICA's new standard with respect to accounting for stock-based compensation arrangements relating to stock options granted to employees, officers and directors. Under the transitional provisions of the standard, stock options granted to employees, officers and directors after the effective date of January 1, 2003 are accounted for using the fair value method. As a result of this change, general and administrative expenses have increased by $113 thousand, property and equipment increased by $20 thousand and contributed surplus increased by $132 thousand. A summary of the assumptions used in calculating the stock-based compensation expense are contained in Note 9(d) of the Consolidation Financial Statements.

Hedging Relationships

The CICA issued Accounting Guideline 13—"Hedging Relationships", which is effective for the Company's fiscal year beginning January 1, 2004. The new standard requires the identification, designation, documentation and measurement of hedging relationships in order to apply hedge accounting. As Gentry had no hedges in place in 2003 and none for 2004, this policy currently has no effect on the Company.

Business Risks and Uncertainties

Gentry, like all companies in the oil and gas industry, operates in an environment subject to inherent risks. Many such uncertainties are beyond the ability of a company to control—particularly those associated with exploring for, and developing, economic quantities of hydrocarbons; volatile commodity prices; issues related to global supply and demand; governmental regulations; and environmental matters.
The Company's business is affected by these risks to the same degree as any other participant in the upstream Canadian oil and gas industry. Gentry has implemented risk protection through such means as maintaining a broad base of interests in core areas of the Western Canadian Sedimentary Basin that have long-term production and reserves. In addition, through its investment in Stratic, the Company participates in selected international exploration ventures of high potential that nonetheless add certain political and technical business risks. Such risks are mitigated by operating in politically and economically stable countries, and by aligning with joint venture companies that have significant international experience.

SUMMARY OF QUARTERLY RESULTS

($000s, except per share amounts)

2003	Quarter ended Mar 31	Quarter ended Jun 30	Quarter ended Sep 30	Quarter ended Dec 31
Production revenue	6,763.0	5,354.5	5,866.8	6,695.5
Cash flow from operations	3,244.1	1,902.6	2,725.1	2,514.4
per share—basic	0.14	0.08	0.11	0.10
per share—diluted	0.13	0.08	0.11	0.09
Net income	1,597.0	506.2	607.9	329.4
per share—basic	0.07	0.02	0.03	0.01
per share—diluted	0.07	0.02	0.02	0.01

2002	Quarter ended Mar 31	Quarter ended Jun 30	Quarter ended Sep 30	Quarter ended Dec 31
Production revenue	3,956.3	4,708.8	4,748.0	5,942.5
Cash flow from operations	1,596.3	1,566.8	1,545.3	2,709.0
per share—basic	0.07	0.07	0.07	0.12
per share—diluted	0.07	0.07	0.07	0.12
Net income	402.5	505.6	632.6	894.8
per share—basic	0.02	0.02	0.03	0.04
per share—diluted	0.02	0.02	0.03	0.04


Cameron Fraser


Michael Halvorson


George T. Hawes


A. Bruce Macdonald

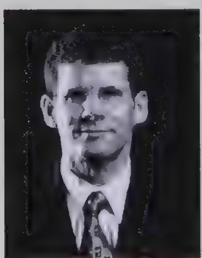

George Magarian


R. Gordon Mckay


Walter O'Donoghue


Ketan Panchmatia


Robert J. Poole


Hugh G. Ross

DIRECTORS

Hugh G. Ross, B.A.
Director
President and Chief Executive Officer
A director of Gentry since December 1988, Mr. Ross earned his Bachelor of Arts degree in Political Science in 1980 from the University of Calgary and joined Gentry's predecessor company shortly after graduation. His extensive knowledge of the industry has been acquired over 20 years of practical involvement—a period in which he has held various positions within the organization, graduating from Corporate Secretary, Junior Landman and Land Manager to Vice President and finally to President and Chief Executive Officer in 1990.

Michael Halvorson, B.Comm.
Director
Mr. Halvorson has been involved in various aspects of the securities industry since 1967. Since 1980, he has been the president of Halcorp Capital Ltd., a private corporation specializing in corporate finance and corporate development within the resource industry. Mr. Halvorson also serves as a director for a number of natural resource companies. He has considerable industry contacts and investment expertise.

A. Bruce Macdonald, B.Sc.
Director
The President of Stonyfell Investments, Mr. Macdonald earned his Bachelor of Science degree in Petroleum Engineering from the Colorado School of Mines. His 40 plus years of experience in the oil and gas industry was gained in Canada, the United States and Australia. Before joining the company, he was Executive Vice-President with Andex Oil Co. Ltd. and its successor company, EOG Resources. Mr. Macdonald's extensive experience and practical knowledge of the oil and gas sector make him a valued member of the Gentry Board of Directors.

George T. Hawes, B.B.A.
Director
Mr. Hawes achieved a B.B.A. in Accountancy from the University of Notre Dame and subsequently

amassed over 30 years' experience in business and international finance. He has served with such companies as Avon Products Ltd. and Hurdman and Cranston Certified Public Accountants (now part of KPMG). He is currently the President of G.T. Hawes & Co. Inc., a successful New York-based real estate brokerage firm. He has considerable investment and financial experience.

Walter O'Donoghue Q.C.
Director
Mr. O'Donoghue is Counsel to the Calgary law firm of Bennett Jones LLP. He has extensive experience in corporate and commercial law and currently sits on the boards of Canadian Oil Sands Limited and Gibson Petroleum Company. He formerly served as a director of Telus Corporation and Gulf Canada Resources Ltd. His legal expertise is complemented by a considerable knowledge of the oil and gas industry.

MANAGEMENT

Hugh G. Ross, B.A.
Director
President and Chief Executive Officer

Ketan Panchmatia, B.Mgt., C.M.A.
Vice President, Finance and
Chief Financial Officer
Mr. Panchmatia obtained his Bachelor of Management degree from the University of Lethbridge in 1988 and joined the national accounting firm of Deloitte & Touche, Chartered Accountants before becoming Controller of Gentry Resources in 1990. Shortly thereafter, he graduated to the position of Secretary and Treasurer of the Company. He earned his C.M.A. designation in 1992 and was appointed Chief Financial Officer in 1995.

R. Gordon McKay, B.E.S.
Vice President, Exploration and
Chief Operating Officer
Mr. McKay holds a degree from the University of Waterloo, as well as memberships in the Society of Exploration Geophysicists and the Canadian Society of Petroleum Geologists. Prior to joining Gentry in 1993, Mr. McKay served as a geophysicist with a seismic processing firm, then as a senior geophysicist with Petro-Canada. He was appointed Vice President in 1996 and Chief Operating Officer in 2000.

Robert J. Poole, B.Sc., P.Eng
Operations Manager
Mr. Poole comes to Gentry with over 21years of diverse industry experience, gained mostly in a junior company environment. He brings a wealth of operational and evaluation engineering knowledge and most recently served as the Vice-President of Operations for BXL Energy. Mr. Poole graduated with a chemical engineering degree from Queen's University in Kingston, Ontario, and is a member of APEGGA and CIM.

George Magarian, B.Sc
Exploration Manager
Mr. Magarian is from St. Catharines, Ontario, and received an Honours B.Sc. in Earth Sciences from the University of Waterloo. He has 22 years of diverse exploration and exploitation experience in Western Canada with all sizes of oil and gas companies. Prior to joining Gentry, he was the lead geologist for a junior oil and gas company active in significant property acquisition exploration and exploitation programs. Mr. Magarian is a member of the CSPG and the Petroleum Exploration Society of Australia.

Cameron Fraser, B.Comm.
Manager of Land and Negotiations
Mr. Fraser has spent the past 20 years in the oil and gas industry. Prior to joining Gentry, he held senior positions in various small to mid-sized oil and gas companies and was successful in managing and implementing the growth strategies of these organizations. Mr. Fraser obtained an Honours Bachelor of Commerce from the Richard Ivey School of Business at the University of Western Ontario and has received his professional Landman Designation. He is currently a member and past director of the CAPL.

Gentry considers corporate governance to be a crucial part of its business. Both management and the Board are committed to protecting the interests of shareholders through high standards of corporate governance, including regular and open communication with shareholders and full and transparent disclosure in its financial reporting and business affairs.

As part of this commitment to shareholders, the Company operates with high standards of integrity in all of its business dealings. One measure of Gentry's commitment is its adherence to the principles of corporate governance contained in guidelines set out by the Toronto Stock Exchange and adopted by the Ontario Securities Commission. Specifically, Gentry has adopted all the TSX's guidelines that are suitable for a company of its size. These guidelines provide a measure of the integrity that Gentry demands of its employees and representatives in all of its business dealings and reporting.

FUNCTIONING OF THE BOARD AND MANAGEMENT

The Board plays an integral role in setting the direction and business strategies of the Company, and meets regularly to consider matters of a wide-ranging nature and to decide on matters which would have a major impact on the Company's operations. These matters include acquisitions and dispositions, financing decisions and material corporate matters.

Management operates with considerable autonomy in day-to-day decisions, however, specific responsibilities and expectations are set out by the Board which include conducting business in a cost-effective manner, and protecting and increasing the Company's asset base, all with the objective of increasing the underlying value of shareholders' investments. Management reports to the Board at least every quarter, however, there is open communication at all times.

DUTIES OF THE BOARD

The Board is responsible for the stewardship of the Company and overseeing management. To ensure an independent perspective in this leadership role, the Board is comprised of one management member and four outside directors, three of whom are unrelated to the Company, and one of whom is a contract consultant to Gentry. Three of Gentry's directors live in Calgary, Alberta; one director lives in Edmonton, Alberta; and one resides in Plandome, New York.

The Board has direct responsibility for such matters as strategic planning, assessing opportunities and risks of the business, and ensuring systems are in place to manage those risks. The Board sets annual operating and capital budgets and long-term debt parameters within which management is expected to operate. The Board is also responsible for succession planning.

While management reports the status of the Company's affairs to the Board on a quarterly basis, there is regular contact between the directors and management which allows for open dialogue and more effective decision-making.

In addition to regular meetings, directors serve on various committees. In 2003, in keeping with a new TSX guideline, Gentry's President stepped down from serving on any committee and the Company's committees are now comprised solely of independent directors.

CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee ensures that the process of corporate governance is ingrained in the structure and functioning of the Board. The two unrelated directors who make up the committee have a number of functions including reviewing the scope, duties, responsibilities and performance of the Board's committees. This committee also ensures that the Board is at the forefront of current developments and legislation regarding corporate governance and the responsibilities of directors.

AUDIT AND RISK MANAGEMENT COMMITTEE

The Board-appointed internal Audit and Risk Management Committee is responsible for overseeing Gentry's business practices and its financial reporting. The committee is comprised of three independent directors and has considerable financial expertise. The committee meets with management to review the quarterly financial statements and directly with Gentry's external auditors to review the annual financial statements, both prior to presentation to the Board for approval.

COMPENSATION AND HUMAN RESOURCES COMMITTEE

The Compensation and Human Resources Committee is made up of two independent directors who are charged with researching and recommending reasonable compensation for directors, management and employees. These recommendations are presented to the Board for review and/or approval.

RESERVES REVIEW COMMITTEE

The Reserves Review Committee is comprised of two independent directors. This committee is responsible for reviewing the year-end reserve evaluation report prepared by independent engineers and, subject to this review, recommending the acceptance of the report to the Board.

ENVIRONMENT, HEALTH & SAFETY

The issue of corporate governance extends to Gentry's operations in the field and a commitment to high standards in all aspects of the environment, health and safety. As Gentry has grown in size and as it operates its core areas, there is much greater emphasis on systems to ensure environmental protection and the safety of Gentry's field staff and its contractors.

Gentry adheres to, and strives to surpass, compliance with government regulations and industry standards. Prior to acquiring a property, Gentry conducts a thorough review to ensure that the asset has no significant safety or environmental liability. During the production engineering and onstream phase, Gentry monitors operations to ensure its operations minimize environmental impacts, and that safety is integrated into daily operations. In addition, the Company's non-operated properties are operated by large and well-respected companies within the industry. For its role in environmental stewardship, Gentry received a Bronze award from the Canadian Association of Petroleum Producers.

To the Shareholders of Gentry Resources Ltd.

The accompanying consolidated financial statements and all information in this annual report are the responsibility of management. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Other financial information appearing throughout the report is presented on a basis consistent with the financial statements. Management has established procedures and systems of internal control designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is produced in a timely manner. The financial statements have been examined by external auditors who were appointed by the Company's shareholders and whose report is set forth below. The Audit Committee of the Board of Directors has reviewed these financial statements with management and the external auditors. The financial statements have been approved by the board of Directors on the recommendation of the Audit Committee.

Hugh G. Ross
President and Chief Executive Officer
April 19, 2004

Ketan Panchmatia
Chief Financial Officer
April 19, 2004

To the Shareholders of Gentry Resources Ltd.

We have audited the consolidated balance sheets of Gentry Resources Ltd. as at December 31, 2003 and 2002 and the consolidated statements of income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2003 and 2002 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Collins Barrow Calgary LLP

CHARTERED ACCOUNTANTS
Calgary, Alberta
March 25, 2004

Comments by Auditor for U.S. readers on Canada—U.S. reporting differences

In the United States of America, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) where there is a change in accounting principles that has a material effect on the comparability of the Company's financial statements, such as the changes described in Notes 2(g) and (i) to the consolidated financial statements. Our report to the shareholders dated March 25, 2004 is expressed in accordance with Canadian reporting standards which do not require a reference to such a change in accounting principles in the Auditors' Report when the change is properly accounted for and adequately disclosed in the financial statements.

Collins Barrow Calgary LLP

CHARTERED ACCOUNTANTS
Calgary, Alberta, Canada
March 25, 2004

December 31, 2003 and 2002

Assets

	2003	2002 (Restated—Note 3)
Current		
Cash and cash equivalents	**$ 194,119**	$ 175,915
Accounts receivable	**7,461,796**	5,356,504
Prepaid expenses	**210,387**	236,760
	7,866,302	5,769,179
Investments *(Note 4)*	**1,544,058**	1,561,111
Property and Equipment *(Note 5)*	**44,062,285**	29,092,384
	$ 53,472,645	$ 36,422,674

Liabilities & Shareholders' Equity

	2003	2002 (Restated—Note 3)
Current		
Accounts payable and accrued liabilities	**$ 8,866,288**	$ 5,599,989
Income taxes payable	**479,240**	403,822
Bank debt *(Note 6)*	**11,964,010**	6,990,027
	21,309,538	12,993,838
Asset Retirement Obligations *(Note 7)*	**1,563,555**	1,299,681
Future Income Taxes *(Note 8)*	**6,140,992**	5,516,577
	29,014,085	19,810,096
Share Capital *(Note 9)*	**18,373,169**	13,262,522
Contributed Surplus *(Notes 9[b] and [d])*	**22,067**	—
Retained Earnings	**6,063,324**	3,350,056
	24,458,560	16,612,578
	$ 53,472,645	$ 36,422,674

Please refer to the accompanying notes.

A. Bruce Macdonald
Director

George T. Hawes
Director

Consolidated Statements of Income

For the Years Ended December 31, 2003 and 2002

	2003	2002 (Restated—Note 3)
Revenue		
Production	**$ 24,679,805**	$ 19,355,614
Less: royalties, net of Alberta Royalty Tax Credit	**(5,067,096)**	(4,225,170)
Interest and other	**285,457**	168,906
	19,898,166	15,299,350
Expenses		
Depletion & depreciation	**7,079,953**	4,273,079
Production	**5,732,584**	4,463,744
General & administrative	**2,529,486**	2,060,198
Interest on bank debt	**484,069**	407,245
	15,826,092	11,204,266
Income From Operations	**4,072,074**	4,095,084
Other Income (Loss)		
Share of loss of affiliate	**(3,985)**	(349,520)
Dilution gain on investments in affiliates	—	295,072
Loss on sale of investments	—	(6,726)
	(3,985)	(61,174)
Income Before Income Taxes	**4,068,089**	4,033,910
Income Taxes *(Note 8)*		
Current	**940,785**	950,749
Future	**86,795**	647,615
	1,027,580	1,598,364
Net Income	**$ 3,040,509**	$ 2,435,546
Net Income Per Share		
Basic *(Note 10)*	**$ 0.12**	$ 0.11
Diluted *(Note 10)*	**$ 0.12**	$ 0.10

Please refer to the accompanying notes.

For the Years Ended December 31, 2003 and 2002

	2003	2002 (Restated—Note 3)
Retained earnings, beginning of year as previously stated	**$ 2,867,417**	$ 1,048,182
Restatement on change in accounting policy *(Note 3)*	**482,639**	400,863
Retained earnings, beginning of year restated	**3,350,056**	1,449,045
Net income	**3,040,509**	2,435,546
Less: Excess of cost of shares acquired		
over stated value *(Note 9[b])*	**(327,241)**	(534,535)
Retained earnings, end of year	**$ 6,063,324**	$ 3,350,056

Please refer to the accompanying notes.

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2003 and 2002

	2003	2002 (Restated—Note 3)
Operating Activities		
Net income	**$ 3,040,509**	$ 2,435,546
Add (deduct) items not requiring cash		
Depletion and depreciation	**7,079,953**	4,273,079
Non-cash compensation	**174,947**	—
Share of loss of affiliate	**3,985**	349,520
Dilution gain on investments in affiliates	—	(295,072)
Loss on sale of investments	—	6,726
Future income taxes	**86,795**	647,615
	10,386,189	7,417,414
Changes in non-cash working capital items	**(564,546)**	(1,165,210)
Asset retirement costs	**(112,643)**	(90,362)
	9,709,000	6,161,842
Investing Activities		
Capital expenditures	**(21,653,477)**	(8,620,870)
Acquisition of investments, net	—	(200,000)
Proceeds from sale of investments	—	45,830
Changes in non-cash working capital items	**1,799,810**	1,149,115
	(19,853,667)	(7,625,925)
Financing Activities		
Proceeds on issuance of share capital, net of share issuance costs	**5,828,070**	2,930,802
Proceeds from bank debt, net	**4,973,983**	(579,096)
Redemption of share capital	**(679,785)**	(910,871)
Changes in non-cash working capital items	**40,603**	(45,064)
	10,162,871	1,395,771
Increase (Decrease) In Cash	**18,204**	(68,312)
Cash and Cash Equivalents, Beginning of Year	**175,915**	244,227
Cash and Cash Equivalents, End of Year	**$ 194,119**	$ 175,915
Supplemental cash flows disclosure:		
Interest paid	**$ 484,069**	$ 407,245
Income taxes paid	**$ 855,285**	$ 313,756

Please refer to the accompanying notes.

1. Company activities

The Company's activities are the exploration for and development of petroleum and natural gas properties in Canada.

2. Summary of significant accounting policies

These financial statements have been prepared using accounting principles generally accepted in Canada which include:

(a) Principles of consolidation
The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Gentry Resources (Saskatchewan) Ltd., Gentry Income Funds Inc. and Gentry Resources (West Africa) Inc. Both Gentry Income Funds Inc. and Gentry Resources (West Africa) Inc. are inactive and have no production operations.

(b) Cash and cash equivalents
Cash and cash equivalents consist of amounts on deposit with banks and broker accounts.

(c) Investments
During 2003, the Company ceased to exert significant influence on its investment in Stratic Energy Corporation ("Stratic").

Prior to October 1, 2003, the Company recorded its investment in Stratic using the equity method of accounting, whereby the investment was initially recorded at cost and the carrying value was adjusted thereafter to include the Company's pro-rata share of earnings and losses. Profit distributions received or receivable were recorded as a reduction to the amount of the investment.

The Company records its investment in Stratic subsequent to October 1, 2003, and its other investment, using the cost method of accounting whereby the investment is initially recorded at cost. Earnings are recognized only to the extent received or receivable. The carrying value of the investment under the equity method of accounting on the date that the Company ceased to exert significant influence becomes its carrying value under the cost method of accounting.

Where there has been a permanent decline in value, the investments are stated at estimated net realizable value.

(d) Petroleum and natural gas exploration and development expenditures
The Company follows the Canadian full cost method of accounting whereby all costs related to the exploration for and the development of petroleum and natural gas reserves are initially capitalized and accumulated in cost centres by country. Costs capitalized include land acquisition costs, geological and geophysical expenditures, costs of drilling productive and non-productive wells, together with overhead and interest directly related to exploration and development activities and lease and well equipment. Gains or losses are not recognized upon disposition of petroleum and natural gas properties unless such a disposition would significantly alter the related cost centre's rate of depletion and depreciation. A significant disposition is defined as causing a change of 20% or more in the annual depletion rate.

Costs capitalized are depleted and depreciated using the unit-of-production method by cost centre based upon gross proven petroleum and natural gas reserves as determined by independent engineers. For purposes of the calculation, petroleum and natural gas reserves are converted to a common unit of measure on the basis of their relative energy content, whereby one barrel of oil is equivalent to six thousand cubic feet of natural gas.

The cost of significant unproved properties are excluded from the depletion and depreciation base until it is determined whether proved reserves are attributable to the properties, or impairment has occurred.

In applying the full cost method, the Company performs a ceiling test which restricts the capitalized costs less accumulated depletion and depreciation, future income taxes and asset retirement obligations for each cost centre from exceeding an amount equal to the estimated undiscounted value of future net revenues from proved petroleum and natural gas reserves, based on current prices and costs, and after deducting estimated future general and administrative expenses, estimated asset retirement obligations, financing costs and income taxes.

(e) Depreciation
Other assets are depreciated using the declining balance method at annual rates of 20% to 100%.

(f) Income taxes
Income taxes are accounted for using the liability method of income tax allocation. Under the liability method, income tax assets and liabilities are recorded to recognize future income tax inflows and outflows arising from the settlement or recovery of assets and liabilities at the carrying values. Income tax assets are also recognized for the benefits from tax losses and deductions that cannot be identified with particular assets or liabilities, provided those benefits are more likely than not to be realized. Future income tax assets and liabilities are determined based on the tax laws and rates that are anticipated to apply in the year of realization.

(g) Asset retirement obligations
Effective January 1, 2003, the Company has adopted retroactively, with restatement of prior periods, the Canadian Institute of Chartered Accountants' new standard on Asset Retirement Obligations. This new section requires liability recognition for retirement obligations associated with long-lived assets, which would include abandonment of oil and natural gas wells, related facilities, compressors and gas plants, removal of equipment from leased acreage and returning such land to its original condition.

Under the new standard, the estimated fair value of each asset retirement obligation is recorded in the period a well or related asset is drilled, constructed or acquired. Fair value is estimated using the present value of the estimated future cash outflows to abandon the asset at the Company's credit-adjusted risk-free interest rate. The obligation is reviewed regularly by Company management based upon current regulations, costs, technologies and industry standards. The discounted obligation is initially capitalized as part of the carrying amount of the related oil and natural gas properties and a corresponding liability is recognized. The increase in oil and natural gas properties is depleted and depreciated on the same basis as the remainder of the oil and natural gas properties. The liability is accreted against income until it is settled or the property is sold and is included as a component of depletion and depreciation expense. Actual restoration expenditures are charged to the accumulated obligation as incurred.

Prior to 2003, the Company estimated costs of dismantlement, removal and site restoration and recorded them over the remaining life of the proved reserves on the unit-of-production basis. The annual provision was included in depletion and depreciation expense and was accrued as a site restoration liability on the balance sheet. Actual restoration expenditures were charged to the accumulated obligation as incurred.

(h) Flow-through shares
The Company, from time to time, issues flow-through shares to finance a portion of its capital expenditure program. Pursuant to the terms of the flow-through share agreements, the tax deductions associated with the expenditures are renounced to the subscribers. Accordingly, share capital is reduced and a future tax liability is recorded equal to the estimated amount of future income taxes payable by the Company as a result of the renunciations, when the expenditures are made.

(i) Stock-based compensation
The Company has a stock option plan as described in Note 9(c).

On October 1, 2003, the Company prospectively adopted the Canadian Institute of Chartered Accountants' new standard with respect to accounting for stock-based compensation arrangements relating to stock options granted to employees, officers and directors. Under the transitional provisions of the standard, stock options granted to

employees, officers and directors after the effective date of January 1, 2003 are accounted for using the fair value method. As a result of this change, general and administrative expense increased by $112,543, property and equipment increased by $19,861 and contributed surplus increased by $132,404, all of which have been recorded in 2003, subsequent to September 30, 2003. The Company will continue to disclose the pro-forma results for stock options issued to employees, officers and directors which were issued in 2002 in Note 9(e).

Effective January 1, 2002, the Company prospectively adopted the Canadian Institute of Chartered Accountants' accounting standard with respect to accounting for stock-based compensation arrangements. Stock options granted to non-employees are accounted for using the fair value method under which compensation expense is recorded based on the estimated fair value of the options at the date of grant. The Company has elected to use the intrinsic value-based method of accounting for its stock option plans, whereby no compensation expense is recorded for stock options issued to directors, officers and employees that have an exercise price equal to or greater than the fair value of the stock at the date options are granted. However, the pro-forma results of using the fair value method, under which compensation expense is recorded based upon the estimated fair value of the options, will be presented only for the effects of options granted subsequent to January 1, 2002.

Any consideration received by the Company on the exercise of stock options will be credited to share capital.

(j) Net income per share
Diluted net income per share is calculated using the treasury stock method, whereby it is assumed that proceeds from the exercise of stock options and warrants are used by the Company to repurchase Company shares at the weighted average market price during the year.

(k) Revenue recognition
Revenue from the sale of petroleum and natural gas is recognized based on volumes delivered to customers at contractual delivery points and rates. The costs associated with the delivery, including operating and maintenance costs, transportation, and production based royalty expenses are recognized in the same period in which the related revenue is earned and recorded.

(l) Foreign currency translation
The Company follows the temporal method when translating foreign currency transactions and the financial statements of its integrated subsidiaries.

Under this method, foreign currency denominated assets and liabilities are translated at the exchange rate prevailing at the balance sheet date for monetary items and at the transaction date for non-monetary items. Revenues and expenses, except depletion and depreciation, are translated at average exchange rates for the year. Depletion and depreciation are translated at the same rate as the related assets. Exchange gains or losses on translation of current and non-current monetary items are included in the determination of net income.

Effective January 1, 2002, the Company adopted the Canadian Institute of Chartered Accountants' amended accounting standard with respect to accounting for exchange gains or losses on long-term monetary items, whereby such gains or losses are no longer deferred and amortized over the remaining terms of the related items. All gains or losses on long-term monetary items are now recognized in income in the period in which they occur. There was no effect to the consolidated financial statements for the year ended December 31, 2002 as a result of this change.

(m) Joint venture accounting
Substantially all of the Company's exploration and production activities are conducted jointly with others, and accordingly, these financial statements reflect only the Company's proportionate interest in such activities.

(n) Measurement uncertainty
The amounts recorded for depletion and depreciation, asset retirement costs and obligations and the ceiling test are based on estimated proved reserves, production rates, future oil and natural gas prices and future

costs. By their nature, these estimates are subject to measurement uncertainty and the effect of changes in such estimates in future periods could be significant.

The amounts used to estimate fair values of stock options issued, and the resultant pro-forma income effects (Notes 9[d] and [e]) are based on estimates of future volatility of the Company's share price, expected lives of the options, expected dividends to be paid by the Company and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect of changes in such estimates on the financial statements of future periods could be significant.

3. Change in accounting policy

The effects of the change in policy for asset retirement obligations for the years ended December 31, 2003 and 2002 are as follows:

	2003	2002
Increase in property and equipment	$ 1,351,899	$ 1,051,675
Increase in accumulated depletion	535,722	396,859
Increase (decrease) in liability for site restoration/asset retirement	24,108	(74,854)
Increase in future Income taxes liability	273,563	247,031
Increase in opening retained earnings	482,639	400,863
Decrease in depletion and depreciation expense	(62,399)	(111,461)
Increase in future income taxes expense	26,532	29,685

There is no change in the basic or diluted net income per share for either year as a result of these changes.

4. Investments

	2003	2002
Stratic Energy Corporation, at cost (2002—at equity)	$ 1,526,058	$ 1,543,111
Other, at cost	18,000	18,000
	$ 1,544,058	$ 1,561,111

At December 31, 2003, the Company owned 18.99% (2002—19.36%) of the common shares and Special Warrants of Stratic. The Company is related to Stratic by virtue of common directors and officers.

5. Property and equipment

	2003	2002 (Restated—Note 3)
Petroleum and natural gas properties including exploration and development thereon	$ 52,872,302	$ 35,316,428
Production equipment and facilities	14,143,839	9,935,427
Other	751,307	542,031
	67,767,448	45,793,886
Accumulated depletion and depreciation	23,705,163	16,701,502
	$ 44,062,285	$ 29,092,384

During the year, the Company capitalized $848,043 (2002—$796,265) of a total of $3,377,529 (2002—$2,856,463) in general and administrative expenses. No interest has been capitalized.

Costs of unproven petroleum and natural gas properties amounting to $3,206,210 (2002—$1,569,091) have been excluded from the depletion calculation.

6. Bank debt

The Company has an uncommitted demand revolving credit facility to a maximum of $14,000,000. The facility is available to the Company by way of prime rate based loans, bankers acceptances and letters of credit. Interest is payable monthly at the bank's prime lending rate. The facility is secured by a general assignment of book debts, a $20,000,000 fixed and floating demand debenture against all assets and undertakings including fixed charges on certain property and equipment, a general security agreement covering all present and after acquired property, and a hypothecation and assignment of certain specific properties. The facility is subject to an annual review.

Effective for the fiscal period commencing January 1, 2002, the Canadian Institute of Chartered Accountants amended Canadian Generally Accepted Accounting Principles to require all borrowings, where the lender has the right to demand repayment within 12 months (other than in the event of default or breach of covenants) or where the lender has the right to refuse to roll-over the borrowing for a further lending period longer than 12 months, to be classified as current liabilities. While the nature of the Company's debt has not changed, the accounting guidelines require that this loan must be classified as current. The Company is not in breach of any covenants under the credit facility.

The credit facility is subject to review on a periodic basis. The next review will be undertaken before May 31, 2004.

7. Asset retirement obligations

The following table summarizes changes in the asset retirement obligations for the years ended December 31, 2003 and 2002:

	2003	2002
Asset retirement obligations, beginning of year	**$ 1,299,681**	$ 1,109,588
Liabilities incurred	**359,036**	215,322
Liabilities settled	**(112,643)**	(90,362)
Accretion expense	**76,292**	65,133
Revisions in estimated cash flows	**(58,811)**	—
Asset retirement obligations, end of year	**$ 1,563,555**	$ 1,299,681

The undiscounted amount of the estimated future cash flows required to settle the obligations is $2,411,686 (2002—$1,987,111). These obligations are expected to be paid over the next several years with a weighted average life of approximately 11 years. The estimated future cash flows have been discounted at the credit-adjusted risk free rate of 5.25% (2002—5.87%).

8. Income taxes

(a) Significant components of the future income tax liability are as follows:

	2003	2002 (Restated—Note 3)
Temporary differences related to property and equipment and asset retirement obligations	**$ 6,456,832**	$ 5,776,275
Share issuance and financing costs	**(193,580)**	(122,125)
Temporary differences related to investments	**(122,260)**	(137,573)
	$ 6,140,992	$ 5,516,577

(b) Income taxes expense differs from that which would be expected from applying the combined Canadian federal and provincial income tax rate of 42.52% (2002—45.01%) to income before income taxes. The difference results from the following:

	2003	2002 (Restated—Note 3)
Expected tax provision	**$ 1,729,752**	$ 1,815,663
Increases (decreases) resulting from:		
Resource allowance	**(1,265,836)**	(1,187,485)
Non-deductible crown payments, net of Alberta Royalty Tax Credit	**1,060,806**	778,609
Change in tax rates	**(596,959)**	100,244
Large corporation and capital taxes	**73,444**	40,552
Non-deductible stock-based compensation	**47,853**	—
Reduced tax rates for resource allowance and capital gains	**3,788**	31,724
Other	**(25,268)**	19,057
	$ 1,027,580	$ 1,598,364

9. Share capital

Authorized

Unlimited number of voting common shares

Unlimited number of non-voting preferred shares

Issued

	2003		2002	
	Number	**Stated Value**	Number	Stated Value
Common shares				
Balance, beginning of year	**23,783,263**	**$ 13,262,522**	22,317,343	$ 11,794,687
Issued for cash *(Note 9 [a])*	**3,000,000**	**5,250,000**	1,000,000	1,400,000
Flow-through shares issued *(Note 9 [a])*	—	—	1,000,000	1,650,000
Share purchase warrants exercised *(Note 9 [a])*	**350,000**	**612,500**	—	—
Stock options exercised *(Note 9 [c])*	**585,000**	**303,350**	207,500	105,625
Issued under employee share purchase plan *(Note 9 [f])*	**76,045**	**124,808**	—	—
Normal Course Issuer Bids *(Note 9 [b])*	**(441,800)**	**(242,207)**	(741,580)	(376,336)
Total issued	**27,352,508**	**19,310,973**	23,783,263	14,573,976
Less: Reduction due to income tax deductions renounced to subscribers *(Note 9 [a])*	—	**(676,164)**	—	(1,181,911)
Share issuance costs (net of income taxes of $138,544 [2002—$95,280])	—	**(261,640)**	—	(129,543)
Balance, end of year	**27,352,508**	**$ 18,373,169**	23,783,263	$ 13,262,522

(a) During the year ended December 31, 2003, the Company issued 3,000,000 common shares at a price of $1.75 per share for gross proceeds of $5,250,000.

During the year ended December 31, 2002, the Company issued 1,000,000 Units at a price of $1.40 per Unit for total proceeds of $1,400,000. Each Unit is exchangeable, for no additional consideration, into one voting common share and one half share purchase warrant. Each whole purchase warrant will entitle the holder to acquire one voting common share at a price of $1.75 per share until June 18, 2004. All Units were deemed to have been exercised on December 18, 2002 into 1,000,000 voting common shares and 500,000 share purchase warrants. As at December 31, 2003, 350,000 share purchase warrants have been exercised.

In addition, during the year ended December 31, 2002, the Company issued 1,000,000 flow-through common shares at a price of $1.65 per share. Income tax exploration deductions in the amount of $1,650,000 were renounced to subscribers effective December 31, 2002. Qualifying expenditures in the amount of $106,058 were incurred to December 31, 2002 and $1,543,942 in 2003.

(b) Pursuant to Normal Course Issuer Bids, the Company acquired 441,800 (2002—741,580) common shares at an average price of $1.54 (2002—$1.23) per share. The excess of cost of reacquisition over stated value of $110,337 (2002—Nil) has been charged against contributed surplus with the remaining $327,241 (2002—$534,535) charged to retained earnings. At December 31, 2003, a maximum of 1,638,680 common shares may be acquired by the Company until August 26, 2004 under the present Normal Course Issuer Bid.

(c) Stock option plan

Under the Company's stock option plan, the Company may grant options to its directors, officers, employees, and consultants. The maximum number of shares which may be reserved for issuance under the plan is 4,300,000 common shares. The maximum number of shares which may be reserved for issuance to any one person under the plan is 5% of the issued common shares. The plan also provides that the price at which options may be granted can not be less than the market price of the common shares at the time the option is granted. Options granted under the plan will have a term not exceeding ten years. The vesting period is set by the Board of Directors at the time the options are granted.

A summary of the status of the Company's stock option plan, as of December 31, 2003 and 2002 and changes during the years then ending are as follows:

	2003			2002		
	Number of Options		**Weighted Average Exercise Price**	Number of Options		Weighted Average Exercise Price
Outstanding, beginning of year	**2,330,000**	**$**	**0.65**	2,502,500	$	0.62
Granted	**720,000**		**1.37**	85,000		1.20
Exercised	**(585,000)**		**0.52**	(207,500)		0.51
Cancelled	**(5,000)**		**1.31**	(50,000)		0.50
Outstanding, end of year	**2,460,000**	**$**	**0.90**	2,330,000	$	0.65
Exercisable, end of year	**1,935,002**	**$**	**0.77**	1,981,664	$	0.60

The following table summarizes the stock options outstanding at December 31, 2003:

	Options Outstanding				Options Exercisable		
Range of Exercise Prices	Number of Options		Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Number of Options		Weighted Average Exercise Price
$0.45 to $0.52	860,000	$	0.49	3.0	860,000	$	0.49
$0.77 to $0.95	675,000		0.80	5.9	675,000		0.80
$1.18 to $1.62	925,000		1.34	4.0	400,002		1.31
Total	2,460,000				1,935,002		

(d) Stock-based compensation expense

The fair value of stock options granted during 2003 was estimated on the dates of grant using the Black-Scholes option-pricing method with the following assumptions:

Risk free interest rate of 3.85%
Expected life of options of 3.5 to 4.5 years
Expected volatility of 59.19%
Expected dividend rate of 0%
Fair value per option granted of $0.66

Compensation costs of $112,543 have been expensed and $19,860 has been capitalized, resulting in the recognition of $132,404 of contributed surplus during 2003.

(e) Pro-forma stock-based compensation expense

Had compensation costs for the Company's stock option plan been determined using the fair value method for options granted from January 1, 2002 to December 31, 2002, the Company's pro-forma net income and retained earnings for 2003 would be reduced by $20,423 (2002—$14,238). There would be no change in net income per share or diluted net income per share.

The assumptions used to determine the fair value of each option granted on the date of grant using the Black-Scholes option-pricing model are as follows:

Risk free interest rate of 4.1%
Expected life of options of 3.5 years
Expected volatility of 65.50%
Expected dividend rate of 0%
Fair value per option granted of $0.60

(f) Employee share purchase plan

On January 1, 2003, the Company initiated an employee share purchase plan (the "Plan"), whereby the Company is authorized to match employees' purchases under the Plan from a minimum of two percent to a maximum of five percent of the employees' regular gross earnings, through the issuance of common shares of the Company, for all full-time employees. Compensation expense is recognized when shares are issued under the Plan and an equal amount is recorded as share capital. Shares are issued from Treasury to employees at the weighted average market price for the month immediately preceding the date of purchase of the Company's shares.

10. Income per share

Net income per share has been calculated based on the weighted average number of common shares outstanding during the year of 24,564,151 (2002—22,075,233).

A reconciliation of the denominators for the per share calculations is outlined below:

	2003	2002
Basic weighted average shares	**24,564,151**	22,075,233
Effect of dilutive stock options and warrants	**1,380,699**	1,242,054
Dilutive weighted average shares	**25,944,850**	23,317,287

There is no change in the numerator in the calculation of diluted net income per share for either year.

In 2002, 500,000 warrants with a weighted average exercise price of $1.75 per share were excluded from the calculation of diluted weighted average shares as their exercise would be anti-dilutive. No warrants were excluded in the 2003 calculation.

11. Financial instruments

(a) Fair values

The fair values of the Company's accounts receivable and accounts payable and accrued liabilities approximate their carrying values due to the short-term nature of these financial instruments. The fair value of investments is $3,833,014 at December 31, 2003.

The fair value of bank debt approximates its carrying value as it bears interest at market rates.

(b) Credit risk

Virtually all of the Company's accounts receivables are with customers in the petroleum and natural gas industry and are subject to normal industry credit risks.

(c) Interest rate risk

The Company is exposed to interest rate cash flow risk to the extent that its bank debt is at a floating rate of interest.

12. Commitments

The Company has obligations under operating leases for office space which expire on November 30, 2008 with annual minimum lease rentals, exclusive of operating costs, of $173,525 per year.

13. United States accounting principles and reporting

The Company's consolidated financial statements have been prepared in Canadian dollars and in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), which in most respects conform to accounting principles generally accepted in the United States ("U.S. GAAP"). Significant differences between Canadian and U.S. GAAP are described in this note:

(a) Full cost accounting

In accordance with U.S. GAAP, a ceiling test is applied to ensure the unamortized capitalized costs in each cost center do not exceed the sum of the present value, discounted at 10 percent, of the estimated unescalated future net operating revenue from proved reserves plus unimpaired unproved property costs less future development costs, related production costs, asset retirement obligations and applicable taxes. Under Canadian GAAP, a similar ceiling test calculation is performed with the exception that future revenues are undiscounted and administrative and interest expenses are deducted from revenues.

In computing consolidated net income for U.S. GAAP purposes, the Company recorded additional depletion in prior years as a result of the application of the ceiling test. These charges were not required under the Canadian GAAP ceiling test. As a result, the depletion base of unamortized capitalized costs is less for U.S. GAAP purposes. No ceiling test write-down is required under Canadian GAAP or U.S. GAAP as at December 31, 2003 and 2002.

(b) Income taxes

Canadian GAAP previously required the Company to record potential future taxes using the deferral method. However, the Canadian Institute of Chartered Accountants' accounting standard is now similar to U.S. GAAP.

Upon implementation of the new Canadian standard, retained earnings was decreased for temporary differences that had not previously been recognized. Under U.S. GAAP, these temporary differences would have already been reflected in property and equipment, therefore further differences in depletion and depreciation expense results in subsequent years.

Under U.S. GAAP, enacted tax rates are used to calculate future taxes, whereas under Canadian GAAP, substantively enacted tax rates are used.

(c) Flow-through shares

U.S. GAAP requires the stated capital on flow-through share issuances to be equal to the estimated fair market value of the shares on the date of issue. The difference between the gross proceeds received on the issuance of the shares and the estimated fair market value of the shares is recorded as a liability ("the Premium") until the renunciation of expenditures has occurred. Under Canadian GAAP, the gross proceeds received on flow-through share issuances are initially recorded as share capital. The Premium recorded as a current liability under U.S. GAAP for 2003 is $Nil (2002—$233,932).

When the expenditures are incurred and the tax deductions are renounced to subscribers, Canadian GAAP requires that the stated capital be reduced by and a future tax liability be recorded for the estimated future income taxes payable as a result of the renouncement. Under U.S. GAAP, the future tax liability is recorded through a charge to income tax expense less the reversal of the Premium previously reported.

(d) Investments

On October 1, 2003, the Company began accounting for its investment in Stratic using the cost method (Note 2[c]). Under U.S. GAAP, the carrying value of the investment under the equity method of accounting becomes its carrying value as of the date of loss of significant influence which is identical under Canadian GAAP.

Additionally, under U.S. GAAP, the Company must classify investments in equity securities that have readily determinable fair values as either available for sale or trading. The Company's investments are classified as available for sale as they were not acquired and are not held principally for the purposes of selling them in the near term. These available for sale investments are revalued at the end of each period based on their fair values and any unrealized gain or loss is recorded, net of tax effects, as a component of other comprehensive income in the period.

(e) Stock-based compensation

Effective January 1, 2003, the Company prospectively adopted the Canadian Institute of Chartered Accountants' new standard with respect to accounting for stock-based compensation arrangements relating to stock options granted to employees, officers and directors. Hence, under Canadian GAAP, compensation costs have been recognized in the financial statements for stock options granted to employees, officers and directors in 2003. For the effect of stock-based compensation on the financial results under Canadian GAAP in 2003, which would be the same adjustment under U.S. GAAP, see Note 9(d).

U.S. Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation" establishes financial accounting and reporting standards for stock-based employee compensation plans under U.S. GAAP. The Statement requires disclosure of the pro-forma net income and net income per share as if the fair value based accounting method had been used to account for stock-based compensation costs in advance of the equivalent Canadian standard. The effects of the fair value disclosures under U.S. GAAP are as follows:

		2003		2002
	As Reported	**Pro Forma**	As Reported	Pro Forma
Net income	**$ 2,824,623**	**$ 2,748,216**	$ 2,106,952	$ 2,011,832
Net income per share—Basic	**$ 0.11**	**$ 0.11**	$ 0.10	$ 0.09
—Diluted	**$ 0.11**	**$ 0.11**	$ 0.09	$ 0.09

The fair value of the options issued by the Company during 2002 was estimated under U.S. GAAP using the same assumptions as under Canadian GAAP, as disclosed in Note 9(e).

(f) Asset retirement obligations

Effective January 1, 2003, the Company early adopted the Canadian Institute of Chartered Accountants' new standard on Asset Retirement Obligations (Note 2[g]). This standard is equivalent to U.S. SFAS No. 143, "Accounting for Asset Retirement Obligations", which is effective for fiscal periods beginning on or after January 1, 2003. Early adopting the Canadian standard eliminated a U.S. GAAP reconciling item with respect to accounting for the obligations. However, differences in accounting methodology for changes in accounting policies necessitate additional disclosures under U.S. GAAP.

U.S. GAAP requires that the cumulative impact of a change in accounting policy be presented in the current year Consolidated Statement of Income and prior periods are not restated.

Net income under U.S. GAAP for the year ended December 31, 2003 increased by $446,346 due to the change in accounting policy. The liability for asset retirement obligations under U.S. GAAP would have been $1,109,588 as at January 1, 2002 and $1,299,681 as at December 31, 2002 had the change in accounting policy been applied retroactively with restatement.

The pro-forma impacts on the Company's financial results under U.S. GAAP if the prior periods had been restated are as follows:

Consolidated Balance Sheet

Asset retirement obligations	
January 1, 2002	$ 1,109,588
December 31, 2002	$ 1,299,681

Consolidated Statement of Income

Year Ended December 31,2002	As Reported	Change	As Restated
Net income	$ 2,106,952	$ 81,776	$ 2,188,728
Net income per share—Basic	$ 0.10	$ —	$ 0.10
—Diluted	$ 0.09	$ —	$ 0.09

(g) Recent accounting pronouncements

(i) Ceiling Test

The Canadian Institute of Chartered Accountants has issued a new standard for full cost accounting for oil and gas properties which changes the calculation of the ceiling test. The Company will adopt this standard for the fiscal year beginning on January 1,2004, which is the effective date of the new standard. Based on January 1, 2004 amounts of property and equipment and undiscounted cash flows from proved reserves, it is estimated that the new standard will not have a material impact on the valuation of property and equipment upon adoption.

(ii) Flow-Through Shares

The Canadian Institute of Chartered Accountants has issued a new standard effective for all flow-through shares transactions initiated after March 19, 2004. Under the new standard, the future income tax liability is recognized, and share capital is reduced, on the date that the Company renounces the tax credits associated with the expenditures, provided there is reasonable assurance that the expenditures will be made. This standard will have no effect on the Company until such time as there is an issuance of flow-through shares.

(iii) Variable Interest Entities

In December 2003, the Financial Accounting Standards Board ("FASB") in the U.S. issued Interpretation Number 46R "Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51". This standard requires variable interest entities to be consolidated by their primary beneficiary. The standard is effective the first reporting period ending after March 15, 2004. In Canada, the Accounting Standards Board ("AcSB") has suspended the effective dates for Accounting Guideline 15, "Consolidation of Variable Interest Entities" in order to amend the guideline to harmonize with corresponding U.S. guidance. The AcSB plans to issue an exposure draft in the immediate future with an effective period beginning on or after November 1, 2004.

At December 31, 2003, the Company did not have any variable interests in variable-interest entities.

Summary of significant differences between U.S. GAAP and Canadian GAAP

Reconciliation of Consolidated Net Income Under Canadian GAAP to U.S. GAAP

	2003	2002
Net income under Canadian GAAP	**$ 3,040,509**	$ 2,435,546
U.S. GAAP adjustments		
Depletion and depreciation	**336,202**	243,765
Future tax expense on flow-through share renouncements	**(442,232)**	(821,184)
Future income taxes	**(614,523)**	233,218
Interest capitalized	**22,028**	15,607
Net income before cumulative change in accounting policy under U.S. GAAP	**2,341,984**	2,106,952
Cumulative effect of change in accounting policy, net of income taxes	**482,639**	–
Net income under U.S. GAAP	**$ 2,824,623**	$ 2,106,952
Net income per share before change in accounting policy under U.S. GAAP		
Basic	**$ 0.10**	$ 0.10
Diluted	**$ 0.09**	$ 0.09
Net income per share including cumulative change in accounting policy under U.S. GAAP		
Basic	**$ 0.11**	$ 0.10
Diluted	**$ 0.11**	$ 0.09

Statements of Comprehensive Income

	2003	2002
Net income under U.S. GAAP	**$ 2,824,623**	$ 2,106,952
Unrealized gain on investments, net of tax effect of $396,218	**1,892,738**	–
Comprehensive income	**$ 4,717,361**	$ 2,106,952

Condensed Consolidated Balance Sheets

	2003		2002	
	Canadian GAAP	**U.S. GAAP**	Canadian GAAP	U.S. GAAP
Assets				
Current assets	**$ 7,866,302**	**$ 7,866,302**	$ 5,769,179	$ 5,769,179
Investments	**1,544,058**	**3,833,014**	1,561,111	1,561,111
Property and equipment	**44,062,285**	**42,084,642**	29,092,384	26,101,695
	$ 53,472,645	**$ 53,783,958**	$ 36,422,674	$ 33,431,985
Liabilities and Shareholders' Equity				
Current liabilities	**$ 21,309,538**	**$ 21,309,538**	$ 12,993,838	$ 13,227,770
Asset retirement obligations	**1,563,555**	**1,563,555**	1,299,681	—
Future removal and site restoration costs	—	—	—	1,374,535
Future income taxes	**6,140,992**	**5,815,356**	5,516,577	3,933,169
	29,014,085	**28,688,449**	19,810,096	18,535,474
Share capital	**18,373,169**	**19,809,110**	13,262,522	14,022,298
Contributed surplus	**22,067**	**22,067**	—	—
Retained earnings	**6,063,324**	**3,371,594**	3,350,056	874,213
Accumulated other comprehensive income	—	**1,892,738**	—	—
	24,458,560	**25,095,509**	16,612,578	14,896,511
	$ 53,472,645	**$ 53,783,958**	$ 36,422,674	$ 33,431,985

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